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Political Economy

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Political Economy

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Chapter One
THE SUBJECT-MATTER OF POLITICAL ECONOMY

> Political economy, in the widest sence, is the science of the laws governing the production and exchange of the material means of subsistence in human society.
>
> *Frederick Engels*

The world we live in is complex and contradictory: remarkable achievements in production, science and technology in some countries and extreme backwardness in dozens of other countries which are fighting hard against poverty and for independent economic development; the building of socialism in the Soviet Union and other socialist states and capitalist rule in the industrialised countries of Western Europe, in the USA and Japan. Such are only some of the major contrasts and contradictions of the modern world, with its global contest between socialism and capitalism. States and nations are more interdependent than ever. Scientific and technical achievements can be used for the benefit of all the peoples only under peaceful coexistence between states with different social systems. Mankind is now highly vulnerable to the nuclear power it has itself created.

What are the causes of all these contradictions? Who and why has been threatening the world with thermonuclear war? Can a world war be averted? Is it possible not only to preserve life on our planet, but to make it richer, more interesting and wonderful, so that all the products of the human mind and hands should serve people instead of threatening them with destruction? The right answer to these and other questions of social life is given by Marxism-Leninism, a scientific system of philosophical, economic and socio-political views constituting the world outlook of the working class. Its founders were Karl Marx and Frederick Engels, and an outstanding contribution to its development was made by Lenin. Political economy is

one of the three components of Marxism-Leninism, alongside philosophy and scientific communism.

So what is the subject-matter of this complicated and interesting science? The term "political economy" stems from three words of Greek origin: *politeia* (social organisation), *oikos* (house, household) and *nomos* (law). Hence, political economy is a science of the laws governing the social "household", or economic life in the society.

1. THE PRODUCTION OF MATERIAL VALUES AS THE BASIS OF SOCIAL LIFE

The Key to Understanding Social Life

Mankind is known to have passed several historical stages in its development. What is at the basis of the transition from one stage of social progress to another?

Before Marx, different thinkers gave different answers to that question. Some explained the development of the society by the operation of supernatural forces, by "God's will". Others thought history was made by outstanding individuals: kings, generals and public figures. Still others, having despaired of tracing any uniformities, said that history was a chain of accidents without any laws.

Bourgeois researchers often argue that there are no objective laws of social development and that it is the result of chance events.

Marxism-Leninism does not deny the role of the individual in history. Historical experience shows, however, that an individual's political activity is successful only when it does not contradict, but corresponds to the objective course of social development. What is the basis of that objective course?

Marx and Engels made a great discovery, which has been confirmed by the whole history of social life. Its essence is that material production lies at the root of the society's development.

In order to live, people should have food, clothes, shelter and other material values. All the necessary means of livelihood should be produced. That is why people work: they extract coal and oil, smelt steel, make fabric, sow wheat, print books and newspapers. If all miners and oil-industry workers were to stop working, the nation's fuel stocks would run out in a few weeks, its power plants, factories and trains would come to a standstill, its tractors and harvesters would be idle, and its shops

would be depleted. Marx wrote: "Every child knows that a nation which ceased to work, I will not say for a year, but even for a few weeks, would perish."[1]

Consequently, *the production of material values constitutes the basis of the society's life and development.* That is why the transition from one stage of social development to another is primarily connected with the development of production.

Material production has travelled a long way of historical development from the primitive hunter-gatherer economy to large-scale machine production on a high-technology basis. But there has always been a common element in production at each stage of social development. Production is always a process of interaction between man and nature, in the course of which man transforms natural objects and adapts them to meet his own requirements.

The production of material values always includes three components: human labour, objects of labour and means of labour.

Labour is conscious and purposeful human activity. The objects that are necessary for human life—food, clothes, shelter, etc.—are not, as a rule, to be found in nature in ready-made form. That is why people work to turn natural objects into material values which they need to meet their requirements.

The natural substances upon which man acts in the process of labour are called *objects of labour*. These are of two types: first, things which come directly from nature, like fish to be caught, trees to be cut down in a virgin forest, oil to be extracted from the ground, and so on; and second, previously treated objects of labour. These are called raw materials, like wood stockpiled at the woodworking factory, ore at a metallurgical works, or coal at an electric power plant.

Apart from labour and objects of labour, the production of material values implies yet another major element: *means of labour*. These are the things with the help of which man acts on the object of labour: mechanical means of labour (machines, tools, equipment), diverse containers, reservoirs, oil and gas storage tanks, and also production buildings, roads, canals, bridges, and so on. Land is a universal means of labour, both as the place where the process of labour occurs and as a natural treasury of objects of labour. In agriculture, land is directly involved in the production process, being the crucial means of

[1] "Marx to Ludwig Kugelmann in Hanover, *London, July 11, 1868*", in: Marx, Engels, *Selected Correspondence*, Progress Publishers, Moscow, 1982, p. 196.

labour. The English economist William Petty, the founder of classical bourgeois political economy, said that labour was the father of wealth, and land, its mother.

Labour is man's exclusive asset. Man uses the means of labour he has himself created in a conscious way, with a definite purpose, and that is the distinction between human labour and instinctive animal movements which sometimes resemble the labour process. Marx pointed out: "...What distinguishes the worst architect from the best of bees is this, that the architect raises his structure in imagination before he erects it in reality."[1] Human activity alone turns natural objects into objects and means of labour. By their labour, people produce, reproduce and increase the quantity of the products they require.

Labour activity changes not only external nature, but also man himself. In the process of labour, man perfects his physical and mental abilities, gains production experience, and enriches his store of knowledge. It is only owing to labour that man has learned to speak. Owing to labour, the human hand has reached such a high degree of perfection as to be able, as Engels put it, to create as if by magic Raphael's pictures, Thorvaldsen's statues and Paganini's music. Today, labour remains the basis of the development of all human abilities.

The Productive Forces and the Relations of Production

Objects and means of labour are used to make products. Together, they constitute the *means of production*, while the means of production and the people who have production experience and set the means of production in motion constitute the *society's productive forces.*

People are the crucial, decisive productive force. It is they who create and use the means of production. Lenin said: "*The primary productive force of human society as a whole, is the workers, the working people.*"[2]

The level of the productive forces is a major indicator of social progress: the higher that level, the higher is the stage of the society's economic and social development.

People have never been known to produce material values on their own, for these can only be produced in the society. Even in the primitive society people joined together to obtain

[1] Karl Marx, *Capital*, Vol. 1, Progress Publishers, Moscow, 1978, p. 174.
[2] V.I. Lenin, "First All-Russia Congress on Adult Education, *May 6-19, 1919*", *Collected Works*, Vol. 29, Progress Publishers, Moscow, 1977, p. 364.

the necessary means of subsistence, entering into definite relations among themselves. That is why production under any conditions is always *social production*. People "produce only by co-operating in a certain way and mutually exchanging their activities. In order to produce, they enter into definite connections and relations with one another and only within these social connections and relations does their relation with nature, does production, take place."[1]

Social relations between people in the process of the production, distribution, exchange and consumption of material values are called *relations of production*. The productive forces and the relations of production are the two sides of social production; they are inseparable from each other and act upon each other. Production relations change with the development of the productive forces.

The *type of production relations* primarily depends on who is the proprietor of the means of production, whose interests does the production process serve, who owns its results. *Relations between people concerning the means of production, i.e., relations of property in the means of production*, are at the basis of the whole system of production relations in any society. It is the type of property in the means of production which determines the main features of the relations of production and an individual's status in social production. History has known two basic types of property in the means of production: private and social.

The productive forces and the relations of production constitute the *mode of the production of material values*. History has known five consecutive modes of production: primitive-communal, slaveholding, feudal, capitalist and communist (with socialism as its first phase).

Bourgeois researchers say that private property in the means of production has always existed and will exist forever. But in the primitive-communal society there was no private property. The extremely low level of the productive forces in primitive communes naturally called for collective property in the means of production, for collective labour and egalitarian distribution of products. There was spontaneously arisen common property of the primitive collective in land, dwellings, and means of subsistence obtained with the use of primitive tools.

But the gradual development of the productive forces led to

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[1] Karl Marx, "Wage Labour and Capital", in: Karl Marx and Frederick Engels, *Collected Works*, Vol. 9, Progress Publishers, Moscow, 1977, p. 211.

the first two major social divisions of labour: first cattle-breeding and then the handicrafts were separated from agriculture. With the improvement of tools, and especially with the spread of diverse metal tools, human labour became ever more productive. That accelerated the economic development of families which were branching off from the commune: these could now produce more than was necessary to meet the vital needs of their members.

Rising labour productivity and growing production led to the emergence of a surplus product and commodity exchange. There was no longer any need for communal property in the means of production and the results of joint labour. Moreover, communal property and egalitarian distribution of products came to obstruct the further development of the productive forces.

Private property in the means of production emerged as a new type of relations based on man's exploitation by man. Prisoners of war were no longer killed, but were turned into slaves, and the results of their labour were appropriated. With the development of commodity exchange, people themselves, as well as the products of human labour, were turned into commodities. Engels wrote: "Men had barely started to engage in exchange when they themselves were exchanged"[1]. The relations of production in a slaveholding society are characterised by the slave-owners' property in all the means of production and in the producer (the slave) himself.

In the slaveholding epoch, the productive forces developed to a considerable extent. New instruments of production appeared in cropping (wooden plough, harrow, spade, sickle, pitch-fork, etc.) and in the handicrafts (bellows, potter's wheel, wheelbarrow, primitive loom, hand mill, etc.). People's labour skills were improving. New trades emerged in the handicrafts: stone-masons, carpenters, potters, harness-makers, metal craftsmen, and so on. In agriculture, gardening and wine-growing branched off from grain cropping, and people began to breed horses and sheep. There was widespread cooperation of slave labour. Slaves erected majestic structures: pyramids, canals and aqueducts, palaces and theatres. Separation of mental work from manual work was a characteristic feature of the slaveholding system. It helped to develop science and the arts.

With the growth of the productive forces, slave labour was

[1] Frederick Engels, "The Origin of the Family, Private Property and the State", in: Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 3, Progress Publishers, Moscow, 1976, p. 331.

gradually outdated. The slaves, who hated the slave-owners and detested their subservient labour, had no incentives to improve their tools and often destroyed them. The production relations of the slaveholding system began to hinder the development of the productive forces. Production declined. Slave uprisings brought on the collapse of the slaveholding system, and feudalism arose in its wake.

In the *feudal society*, the land and other basic means of production belonged to the feudal lords (landowners). Feudal property in land was the economic basis for the exploitation of the peasants (serfs). The feudal lords provided the peasants with plots of land, on which they engaged in small-scale independent farming. For the right to use the land, the peasants had to perform feudal duties: they farmed the feudal lord's land or handed over to him a part of their own produce.

The feudal mode of production gave the peasants some incentive to increase production and improve the implements they owned, so that progress was attained in the development of the productive forces. The three-field system was introduced in agriculture, new branches emerged in field-cropping, and cattle-breeding was further developed. The ways of processing raw materials were perfected, new branches emerged in the handicrafts, and there was an expansion of commodity production and exchange. The development of economic ties between separate economic regions led to the formation of national markets and eventually of a world market.

The growth of commodity production accelerated the differentiation (stratification) of the commodity producers. Most of them were ruined, losing their means of production and turning into wage workers, while some became capitalist entrepreneurs. Peasant revolts accelerated the disintegration and downfall of the feudal states. After a period of bourgeois revolutions, feudalism was succeeded by capitalism.

Capitalism is based on the further development of private property in the means of production and exploitation of wage labour. It ensures a much higher level of the productive forces as compared with feudalism. The growing economic requirements of material production lead to the emergence and use of new means of labour: machines. The transition from manual means of labour to machines radically alters the working person's labour functions in the production process.

Joint, collective use of machines, the social character of the labour process becomes a technical necessity, stemming from the very nature of the means of labour. The spread and develop-

ment of machines and the growth of the social division of labour on the basis of machine industry enhances the social character of production on the scale of the whole of society. At the same time, as capitalist production develops, the contradiction between the social character of production and the capitalist appropriation of the results of the joint labour of thousands upon thousands of working people tends to deepen, objectively conditioning a replacement of the capitalist mode of production with a communist one.

So, the initial cause of the transition from one mode of production to another is the growth of the productive forces. As these develop, the old relations of production begin to fetter economic growth and to slow down social progress. *Obsolete relations of production should be eliminated and replaced with new ones.*

In a society with antagonistic classes and man's exploitation by man, the discrepancy between the relations of production and the productive forces is eliminated through irreconcilable class struggle, as a result of social revolutions. Marx was the first to formulate that idea: "At a certain stage of development, the material productive forces of society come into conflict with the existing relations of production ... within the framework of which they have operated hitherto. From forms of development of the productive forces these relations turn into their fetters. Then begins an era of social revolution."[1]

The relations of production are of decisive importance to the society's life, being its foundation, or *basis*. Definite political, juridical, ideological and other social relations correspond to each basis. These constitute the society's *superstructure* and influence the course of economic development. Political economy studies the relations of production together with the superstructure. The mode of the production of material values with the corresponding superstructure constitute a socio-economic formation.

2. THE ECONOMIC LAWS OF SOCIAL DEVELOPMENT

The Objective Character of Economic Laws

Economic life in the society develops in accordance with definite laws. *The task of political economy is to study the laws*

[1] Karl Marx, *A Contribution to the Critique of Political Economy*, Progress Publishers, Moscow, 1977, p. 21.

of the society's economic development so as to ensure their efficient use in practice. Economic laws express the fundamental, essential and constantly recurring connection and interdependence between economic phenomena and processes. Like natural laws, economic laws are objective and do not depend on human will or consciousness. Thus, in a society with private property in the means of production, man's exploitation by man is inevitable.

At the same time, economic laws are essentially different from the laws of nature: they originate solely in the process of man's productive, economic activity.

Economic laws express the essence of the relations of production. Since the latter change with the advance of the productive forces, economic laws cannot be the same for all the modes of production. Most economic laws operate solely within a given mode of production and are known as *specific* laws. The most important of these is the basic economic law, which expresses the most essential features of a given mode of production.

There are also *general* laws, which are inherent in all modes of production. These include the law of correspondence of the relations of production to the development level and nature of the productive forces, the law of time saving, the law of growing requirements, and so on.

There is yet another set of laws, which operate in more than one, but not in all socio-economic formations. These include the law of value, the law of money circulation, the law of supply and demand, etc, and are known as *special* laws. So, each socio-economic formation has its own system of economic laws, which includes specific, general and special laws.

The Subject-Matter of Political Economy

Political economy studies the social relations between people taking shape in the process of the production of material values, and the laws governing the production, distribution, exchange and consumption of material values at different stages in the society's development.

Political economy studies the relations of production in connection with the productive forces. One should always bear in mind that the relations of production and the productive forces are indissolubly tied in with each other, that changes in the productive forces entail changes in the relations of production,

and that the latter exert a reciprocal influence on the development of the productive forces, accelerating or slowing down their advance. But the technology of production is not part of the subject-matter of political economy. Marxist-Leninist political economy does not study the objects or means of labour, but the way in which the productive forces are used under certain relations of production.

In the past, bourgeois economists used to regard wealth as the subject-matter of political economy. In fact, the main work by Adam Smith, a leading representative of classical bourgeois political economy, was called *Inquiry into the Nature and Causes of the Wealth of Nations*. Many present-day political economists share that view. But wealth is an aggregation of things, of material values, while political economy as a social science does not study things in themselves, but relations between people over the production, distribution, exchange and consumption of these values.

By defining political economy as a science of wealth, of economic activity in general, bourgeois economists seek to obscure the economic, production relations and contradictions between social classes. They evade the questions of who creates that wealth and who appropriates it, and when they are finally obliged to answer them, they falsify the answers. To define political economy as a science of wealth, a science of production from the standpoint of production technology alone is to obscure the historical nature of economic laws. Material values are produced, distributed and consumed at each stage in the society's development, with its corresponding type of property in the means of production. That is why social relations between people over the production of material values are different. Today, for instance, with one and the same development level of the productive forces, i.e., the objects and means of labour and labour-power itself, relations between people in the production, distribution, exchange and consumption of material values in the capitalist and the socialist countries differ radically. Lenin wrote: "It is not with 'production' that political economy deals, but with the social relations of men in production, with the social system of production."[1]

[1] V.I. Lenin, "The Development of Capitalism in Russia", *Collected Works*, Vol. 3, Progress Publishers, Moscow, 1977, pp. 62, 63.

3. WHY IT IS IMPORTANT TO STUDY POLITICAL ECONOMY

Political economy examines the laws of the formation, development, and downfall of different modes of production and, consequently, of different social classes, thus affecting the vital interests of all classes. That is why it is a class, partisan science, which means that it serves the interests of a definite class.

There is bourgeois political economy, which expresses the interests of the bourgeoisie. It seeks to camouflage the exploitive nature of capitalism, to shift the blame for the misfortunes of millions of working people from the capitalist mode of production to the laws of nature, to technical progress or the individual's economic mentality. It avoids an analysis of objective processes in the development of capitalism and its contradictions. Bourgeois economists are not interested in bringing out the objective laws of the capitalist mode of production. After all, if one recognises the objective nature of economic laws, one should also draw the conclusion that capitalism is not an eternal social system, but a thing of the past in mankind's develoment, that capitalism is now the main obstacle in the way to economic and social progress. By camouflaging the true essence of capitalist exploitation, bourgeois political economy serves the interests of the capitalist class.

In contrast to bourgeois political economy, proletarian, Marxist-Leninist political economy openly proclaims its class character, voicing the interests of the working class, the advanced class of today. It gives a truly scientific explanation of the society's development uniformities and provides a theoretical basis for the proletariat's revolutionary struggle to restructure the society at root on socialist principles.

Marx and Engels proved that the only way to end the exploitation of the working people was to eliminate capitalist property in the means of production, and that a revolutionary replacement of capitalism by socialism was historically inevitable. Marx had good reason to describe *Capital*, his main work, as the "most terrible *missile* that has yet been hurled at the heads of the bourgeoisie...".[1] The theory of Marx and Engels was later developed by Lenin, who substantiated the uniformities of a triumphant socialist revolution under imperialism, and the ways and means of building socialism.

[1] "Marx to Johann Philipp Becker in Jeneva, *Hanover, 17 April 1867*", in: Karl Marx and Frederick Engels, *Collected Works*, Vol. 42, Progress Publishers, Moscow, 1987, p. 358.

Under socialism, political economy acquires special importance. It provides a scientific groundwork for the economic policy of the party and the socialist state, for planned economic administration. As it studies the relations of production in their dialectical interplay with the productive forces and the superstructure, political economy makes it possible to elaborate effective measures to improve the forms and methods of economic activity, raise production efficiency, and accelerate socio-economic development.

Every working person in a socialist society should have a knowledge of economic laws, for it helps to solve, with due economic competence, problems relating to the development of production and managerial problems in the specific conditions of work collectives, to make socially rational use of labour time and material resources, and to foster a truly proprietary attitude to socialist social property.

Political economy comes to play a much more important role during the transition of socialist production to the intensive road of development. This transition involves a profound and all-round restructuring of the economy (its material base, its methods of planning, administration and management, its whole economic system) and an utmost invigoration of the human factor. A knowledge of political economy helps to understand all the complicated economic processes and to develop a new type of economic thinking among the working people. That is why the communist parties attach exceptional importance to the development of political economy, as well as other social sciences.

QUESTIONS FOR DISCUSSION

1. What is the role of production and labour in the society's life?
2. What are the productive forces and the relations of production? What is the connection between them? What does a "mode of production" mean?
3. What are the main types of production relations?
4. What is a "socio-economic formation"?
5. What do economic laws express?
6. What is the subject-matter of political economy?
7. Why is it important to study political economy?

Part One

POLITICAL ECONOMY OF CAPITALISM AS THE THEORETICAL BASIS OF THE REVOLUTIONARY STRUGGLE OF THE WORKING CLASS

Chapter Two

COMMODITIES AND MONEY

> The point where ... history begins must also be the starting point of the train of thought... Political economy begins with commodity.
>
> *Frederick Engels*

Marxism-Leninism has provided scientific proof that capitalism is the last exploitive system in human history. But capitalism will not collapse automatically. The struggle against the outgoing system requires enormous efforts. To ensure the success of that struggle and work out a correct strategy in the historic contest between socialism and capitalism, one should know the objective economic laws of the emergence, development and downfall of capitalism.

In order to understand the essence of capitalist production relations and their laws, it is important to understand the nature of commodities and money, for the capitalist mode of production only emerges at a definite stage in the development of commodity production and circulation.

In this chapter, we shall examine the nature of commodity production; commodities and the labour embodied in them; the essence of money and its functions, and the law of value.

1. COMMODITY PRODUCTION, THE STARTING POINT IN THE EMERGENCE OF CAPITALISM

The Essence of Commodity Production

At the early stages in the society's development, there was a subsistence (natural) economy. Each primitive commune

existed in isolation, and all it produced was consumed by its members themselves. Patriarchal peasant farms, slaveholding latifundias and medieval feudal estates were also mostly of the subsistence type.

But even as the primitive-communal system disintegrated, some of the products were turned into commodities. Under slavery and feudalism, commodity production continued to develop, but was still subordinate to the subsistence economy.

Under capitalism, commodity production becomes universal. Everything is bought and sold. It is not only material, but also spiritual values, not only the products of human labour, but also labour-power itself that become commodities.

What is commodity production? By commodity production, Lenin wrote, "is meant an organisation of social economy in which goods are produced by separate, isolated producers, each specialising in the making of some one product, so that to satisfy the needs of society it is necessary to buy and sell products (which, therefore, become commodities) in the market".[1] Consequently, *commodity production is a form of economic activity under which products are made for sale, and not for personal consumption.*

For products of labour to turn into commodities, two conditions are necessary: first, social division of labour among the producers of material values; and second, separation of the producers, which historically takes place on the basis of private property in the means of production.

Simple and Capitalist Commodity Production

Capitalist commodity production originates from small-scale, or simple, commodity production, which is based on private property in the means of production and on the commodity producer's personal labour. Such is the economy of peasants and handicraftsmen who make products for sale in the market, for exchange.

In the course of market competition, the small commodity producers were stratified. A few were enriched and became capitalists, while the majority were ruined, lost their means of production and became proletarians. That is why simple commodity production is the starting point in the emergence of capitalism and keeps feeding capitalist relations.

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[1] V.I. Lenin, "On the So-Called Market Question", *Collected Works*, Vol. 1, Progress Publishers, Moscow, 1963, p. 93.

Capitalist production is based on private property in the means of production and on the exploitation of other people's labour, of hired labour-power. Lenin wrote: "By capitalism is meant that stage of the development of commodity production at which not only the products of human labour, but human labour-power itself becomes a commodity."[1]

2. COMMODITIES AND THE LABOUR EMBODIED IN COMMODITIES

The Commodity and Its Properties

The commodity is a product of labour designed for exchange through purchase and sale. It has two major properties. Marx wrote: "A commodity is, in the first place, ... a thing that by its properties satisfies human wants of some sort or another."[2] Bread, for instance, satisfies the human need for food. *The ability of a thing to satisfy some human need is called use-value.* But not every thing which satisfies human needs is a commodity. Take air. It is necessary to all, for it meets a vital human need. But can air be called a commodity? Of course, not. It is neither bought nor sold, but is a gift of nature. However, if we extract oxygen from the air and fill a cylinder with it, it becomes a commodity. Why is that so? Because oxygen in that case is a product of labour. Consequently, commodities are products of labour.

But not every product of labour is a commodity. "To become a commodity a product must be transferred to another, whom it will serve as a use-value, by means of exchange."[3] So, *a commodity is a product of labour designed for sale in the market, for exchange.*

The use-values of different commodities, like those of a briefcase and a bicycle, are qualitatively different and incomparable. But why are totally different things exchanged for each other in definite proportions? Because all commodities have one property in common: they are all products of human labour. The labour expended on the production of a commodity constitutes its value. So, *the value of a commodity is the commodity producer's social labour embodied in it.* The value of a

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[1] V.I. Lenin, "On the So-Called Market Question", p. 93.
[2] Karl Marx, *Capital*, Vol. I, p. 43.
[3] Ibid., p. 48.

commodity includes not only the working person's living labour, but also the labour embodied in the means of production spent in making that commodity.

What is the magnitude of the value of a commodity? It is determined by the quantity of labour, by the labour-time that is necessary for its production. But different commodity producers work under different conditions of production and expend different quantities of time in making one and the same type of commodity. That is why *the magnitude of the value of a commodity is determined not by individual, but by socially necessary labour-time.* "The labour-time socially necessary is that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time."[1] It tends towards the individual labour-time of those commodity producers who produce most of the output.

The labour-time that is socially necessary to produce a commodity (the labour-time that determines its value) changes with the development of production. Labour productivity growth is the main factor in reducing it. Labour productivity is measured by the quantity of products turned out in a unit of labour-time. The higher the labour productivity, the lower is the value of a commodity.

Concrete and Abstract Labour

Commodities have use-value and value because labour itself, which creates them, has a dual character. Take two commodity producers: a joiner and a farmer. Their labour differs, first, in its goal: the former aims to make a table, and the latter, to grow wheat; second, in the objects of labour: the former uses boards, veneer and glue, and the latter, seed, tractor fuel and fertilizers; third, in the instruments of labour: the former uses a saw, a plane, a chisel and a hammer, and the latter, a tractor, a plough, a cultivator, and a mower; fourth, in the character of labour operations: the former saws, planes, glues and polishes, and the latter tills the land, sows, harvests, and threshes; and fifth, in the result: the former produces a table, and the latter, wheat. The labour of these commodity producers in a definite useful form is *concrete labour.* It creates use-value (table, wheat). But the labour of the joiner and the labour of the

[1] Karl Marx, *Capital*, Vol. I, 47.

farmer have something in common: both of them work and expend physical and mental energy. The labour of commodity producers, taken independently of its concrete form, is *abstract labour*. Abstract labour creates the value of a commodity. The dual character of commodity-producing labour was first discovered by Marx. That helped to bring out the dual nature of the commodity, the unity of and the contradiction between its use-value and value, and the contradictions of the commodity economy.

Under private property in the means of production, the dual character of labour, as embodied in the commodity, reflects the contradiction between the private and the social labour of the commodity producers. Each producer makes this or that commodity in accordance with his private interests. But the social division of labour calls for an interconnection among the commodity producers, for it makes the labour of each of them a part of the society's aggregate labour.

Consequently, the labour of each commodity producer has not only a private, but also a social character. However, the social character of labour is manifested only in the market, in the process of exchange, when the commodities produced are bought and sold. Commodities which are not sold lose a part or the whole of their value. That is why each producer is in a hurry to sell his goods while they are still in demand and can be sold at a fairly high price. The contradiction between private and social labour results in haphazard development of production, engenders competition among commodity producers, and leads to the ruin of some and the enrichment of others.

So, the commodity's internal contradiction between use-value and value under private property in the means of production turns into an external contradiction when the commodity is marketed, manifesting itself in the contradiction between private and social labour. *The contradiction between private and social labour is the basic contradiction of simple commodity production.* It is further developed under capitalism.

3. THE ESSENCE OF MONEY AND ITS FUNCTIONS

Money is a special commodity used to acquire other commodities. As Engels pointed out, money is "the commodity of commodities, which conceals within itself all other commodi-

ties, ... the charm that can transform itself at will into anything desirable and desired".[1]

In the capitalist society, money acquires an exceptional power over people. It not only makes them work for the exploiters, but also induces them to sell their honour and conscience, and sometimes even to risk their life. Money earned at the price of life and limb is not unusual in the capitalist world.

So what is the key to the mysterious power of money over people? Did money always exist and will it exist forever?

No one before Marx could give the right answer to these questions. Some economists said that money was the result of an agreement between people, others insisted that money was created by the state, etc. Marx was the first to prove that money emerged as a result of protracted historical development of commodity production and exchange.

Exchange appeared in the primitive society. Since there was as yet no social division of labour, exchange was an accidental phenomenon. If one commune had a surplus of products obtained from hunting, while another had a surplus of fish as a result of a good catch, the two communes, once they came into contact, could exchange these surpluses. Such exchange could be expressed by this formula:

1 animal carcass = 3 baskets of fish.

That stage of exchange corresponded to the *simple, or accidental, form of value*. The first commodity plays an active role: it expresses its value in terms of another commodity and is in the *relative form of value*. The second commodity plays a passive role: it serves as the material for expressing the value of the first commodity and is in the *equivalent form of value*.

With the development of production, exchange developed as well. As a result of the first major social division of labour (the separation of cattle-breeding from agriculture), cattle was no longer accidentally, but systematically exchanged for other commodities. The simple, or accidental, form of value developed into the *total, or expanded, form of value*, which could be expressed as follows:

$$1 \text{ sheep} \begin{cases} = 4 \text{ sacks of corn} \\ = 20 \text{ measures of cloth} \\ = 2 \text{ axes} \\ \quad \text{etc.} \end{cases}$$

[1] Frederick Engels, "The Origin of the Family, Private Property and the State", *Selected Works* in three volumes, Vol. 3, p. 323.

The growth of the productive forces, the development of the social division of labour, and the widening range of commodities being exchanged led to the emergence of a new form of value. The expanded form of value developed into the *universal form of value*, which could be expressed as follows:

$$\left.\begin{array}{l} \text{4 sacks of corn} = \\ \text{20 measures of cloth} = \\ \text{2 axes} = \\ \text{etc.} \end{array}\right\} \text{1 sheep}$$

Each commodity owner now exchanges his commodity for the commodity which has become the *universal equivalent*, and then exchanges the latter for the commodity he needs.

With the further development of commodity production, exchange extended beyond the limits of local markets. But the diversity of equivalents complicated the exchange procedures. The need arose to fix the role of universal equivalent in one commodity, and that commodity became money. *Money is a special commodity serving as universal equivalent.*

The money form of value could be expressed as follows:

$$\left.\begin{array}{l} \text{1 sheep} = \\ \text{4 sacks of corn} = \\ \text{20 measures of cloth} = \\ \text{2 axes} = \\ x \text{ commodity } A = \end{array}\right\} \text{2 ounces of gold}$$

At first, the function of money was performed by the most popular goods, like cattle, furs or salt. In the course of time, the role of money was gradually fastened on precious metals, gold and silver, for these are compact, durable, homogeneous and easy to divide.

With the emergence of money, the world of commodities was divided into two opposite parts: commodities as use-values and money as the universal embodiment of social value.

The essence of money is expressed in its functions. In a developed commodity economy, money performs five functions: standard of value, medium of circulation, means of hoarding, means of payment, and world money.

The first function of money is to operate as a *standard of value*. The value of a commodity expressed in terms of money is known as its price.

Once the price of a commodity has been established, it should be sold, i.e., exchanged for money. In that process, money performs the function of *medium of circulation*.

An important practical question to be answered is how much money is required for the circulation of commodities in a country, say, in the course of a year. If each currency unit were in circulation once a year, the quantity of money in circulation would have been equal to the sum-total of the prices of the commodities sold. In actual fact, each currency unit services more than one act of exchange in the course of a year. That is why the quantity of money necessary for the circulation of commodities in the course of a year is equal to the sum-total of the prices of the commodities sold divided by the average annual number of circuits of one and the same monetary unit.

$$Q = \frac{P}{N},$$

where Q is the quantity of money necessary for commodity circulation,
P is the sum-total of the prices of the commodities sold in a year,
N is the average number of circuits of each monetary unit.

In its function as medium of circulation, money's performance is fleeting. Having serviced one seller of commodities, money passes into the hands of another seller of commodities, and so on. It makes no difference to the commodity owner what kind of money he gets (gold or paper), since he spends it in buying the goods he needs. That is why in its function as medium of circulation full-value money can be replaced with its token: paper money.

In its third function, money is a *means of hoarding* (a means of accumulation). The striving to hoard money is due to two circumstance: the power of money, its social importance, and the commodity producer's urge to insure himself against the vicissitudes of the market, to be able to buy the commodities he needs regardless of whether his own commodity has been sold or not.

It is common knowledge that payment for the commodities sold is sometimes postponed. When a commodity is offered on the market, the buyer can for various reasons lack ready money for its purchase. In that case, the commodity is sold on credit, and the money then serves as a means of paying the debt, so performing the function of a *means of payment*. Money also performs that function in the payment of wages, taxes, rent, etc. That function has developed on a particularly large scale with the introduction of settlements which do not involve cash (clearing payments). Since most settlements today do not involve cash, the quantity of money necessary for circulation has been decreasing. With due regard for the function of money as

a means of payment, the total quantity of money can be determined as follows:

$$Q = \frac{P - Cr + Rd - Pw}{N},$$

where Q is the quantity of money necessary for commodity circulation;
P is the sum-total of the prices of goods and services sold,
Cr is the sum-total of the prices of the goods and services sold on credit,
Pd is the sum-total of the payments falling due in the given year,
Pw is the amount of mutual payments write-offs,
N is the average number of circuits of the given monetary units.

When more paper money is issued than is necessary for the circulation of commodities, it is depreciated. Depreciation of paper money in connection with its excessive issue is called inflation. Inflation means higher prices of consumer goods and worsening conditions for the working people.

Money widely functions in the international arena as well: in foreign-trade settlements on the world markets, in lending, repairment of loans, etc. Here it functions as world money. For a long time, that function was performed by gold. Today, gold has been withdrawn not only from circulation within individual countries, but also from international settlements. It is now the national currencies of countries which play the leading role in international economic ties that are used as world money in international settlements.

4. THE LAW OF VALUE

The law of value is an objective economic law of commodity production. It is a basic economic law of capitalism.

Its essence is that commodities are exchanged in accordance with their value, i.e., with the socially necessary expenditures of labour on their production. Under private property in the means of production, the law of value operates spontaneously, taking effect through competition among the commodity producers and fluctuations in market prices. A decline in the value of a commodity leads to a decline in its price, and a rise in its value leads to a rise in its price. That does not mean, however, that prices always coincide with value. Changes in the balance between supply and demand lead to deviations in the price of a commodity from its value.

The law of value plays a major role in shaping the conditions for a transition to capitalist production.

First, its operation tends to stratify small commodity pro-

ducers. Some of them, with the lowest individual labour inputs, are enriched and become capitalists, while others, whose individual labour inputs are high, are ruined and become wage workers. In that way, small commodity production turns into capitalist production.

Second, the law of value is a regulator of commodity production. Since production based on private property develops spontaneously, the supply of commodities does not, as a rule, coincide with the demand for them. When the production, say, of footwear is higher than the demand for it, prices fall below value and it is no longer profitable to produce footwear. Some of its producers are ruined, others cut back their production or stop it altogether, and switch to other commodities (for instance, suits) which are in demand. Eventually there is an overproduction of suits, and everything is repeated. So, the law of value spontaneously regulates the distribution of the means of production and labour-power between various branches of the economy and influences the scale of production.

Third, the law of value stimulates the development of the productive forces. To avoid being ruined in the course of competition, each commodity producer seeks to improve production technology and organisation and to raise labour productivity so as to reduce individual labour inputs, get an advantage in the market, and make the highest profit.

QUESTIONS FOR DISCUSSION

1. What are the main features of commodity production? In what conditions did it emerge?
2. What are the distinctions between capitalist and simple commodity production?
3. What is a commodity? What determines its value?
4. What is the distinction between concrete and abstract labour?
5. What is the essence of money and its functions?
6. What is the essence of the law of value?

Chapter Three

THE ESSENCE AND MECHANISM OF CAPITALIST EXPLOITATION

> The doctrine of surplus-value is the cornerstone of Marx's economic theory.
>
> *Lenin*

As we saw in Chapter Two, human labour is the only creator of value. But why is it that some people under capitalism, having worked hard all their life, nevertheless die in poverty, while others are wealthy and grow even wealthier without working?

The question is an old one, but for a long time people could not find a correct answer to it. Their protest against such injustice erupted in spontaneous uprisings against their exploiters. It was only Marxist-Leninist political economy, Marx's theory of surplus-value that gave the correct, scientific answer to that question.

In this chapter, we shall examine capital and surplus-value, wages, the basic economic law of capitalism, and the incomes of the exploiter classes.

1. CAPITAL AND SURPLUS-VALUE

What Is Surplus-Value?

With the transition from feudalism to capitalism, the working people's exploitation by the ruling classes does not come to an end but, on the contrary, further intensifies, assuming camouflaged forms. What is the source of the immense incomes of the exploiter classes under capitalism? Diverse schools of bourgeois political economy, both pre-Marxian and present-day, give different but equally incorrect answers to these questions. Some bourgeois economists said, for instance, that the incomes of the capitalist class increased in the sphere of commodity

circulation, in the course of non-equivalent commodity exchange. Thus, the French economist Condillac wrote: "It is not true that on an exchange of commodities we give value for value. On the contrary, each of the two contracting parties in every case, gives a less for a greater value.... If we really exchanged equal values, neither party could make a profit. And yet, they both gain, or ought to gain. Why? The value of a thing consists solely in its relation to our wants. What is more to the one is less to the other and *vice versa*."[1] Condillac's arguments are obviously invalid: he confuses use-value with exchange-value. If the value of things were truly determined by our requirements, air would have been among the most expensive, for man cannot survive without air for more than five minutes. But, as we know, air has no value and is not a commodity.

Of course, if the purpose of exchange is to obtain a use-value, both the buyer and the seller will benefit from the transaction, for the buyer needs the commodity and the seller needs the money. From the standpoint of value, however, when the prices of the commodities being exchanged do not deviate from value, neither the buyer nor the seller will gain anything. That is why an exchange of equivalents cannot lead to an increase in value.

Other bourgeois economists explain the increase in value (and so in capitalist incomes) by non-equivalent exchange. But anyone will realise that if all the commodities are sold at a price that is, say, 10 per cent higher than their value, the sellers of these commodities will, of course, gain these 10 per cent but their buyers will lose an equal amount. Moreover, the sellers of some commodities are buyers of other commodities, so that anything they gain as sellers they lose as buyers.

Some economists claim that an increase in value results from the skill and enterprise of individual capitalists. True, a more enterprising capitalist can make more profit than one whose factory for some reason lags behind in mastering new means of production. Price fluctuations on the market increase the incomes of some capitalists and decrease those of others. In the final count, however, profit is made by the whole capitalist class and not by individual capitalists. Hence Marx's conclusion: "The capitalist class, as a whole, in any country, cannot overreach themselves.

"Turn and twist then as we may, the fact remains unaltered. If equivalents are exchanged, no surplus-value results, and if

[1] Karl Marx, *Capital*, Vol. I, p. 157.

non-equivalents are exchanged, still no surplus-value. Circulation, or the exchange of commodities, begets no value."[1]

So how does value increase? Marx tackled that complicated question by studying the external form of the movement of capital. Capital initially appears in the form of a definite sum of money. The capitalist spends the money to buy commodities in order to obtain even more money than he had advanced. The increment, or the excess of money received over and above the originally advanced sum, was designated by Marx as *surplus-value*.

The movement of any capital, regardless of the sphere of the economy in which it is used, could be expressed by this formula: M (money) $— C$ (commodity) $— M'$, where $M' = M + m$, i.e., it is equal to the originally advanced sum of money plus a certain increment (or surplus-value). Let us now take a closer look at the formula of the circulation of money as capital and answer this question: where and by whom is surplus-value created? As we have seen, in the sphere of circulation the capitalist cannot get more money than he advanced. Nor can surplus-value originate outside circulation: the capitalist cannot get any surplus-value without buying and selling. Consequently, an increase in the originally advanced sum of money can only arise from the consumption of the goods which the capitalist buys on the market to effect the process of production. The owner of the money buys a commodity whose use-value has the property of creating new value. As Marx showed, it is labour-power that is such a specific commodity.

The doctrine of labour-power as a commodity is one of Marx's greatest discoveries. Bourgeois political economy has always asserted that the worker sells his labour to the capitalist, and that he is allegedly paid for that labour in full. Hence it follows that there is no exploitation of the working class. Marx provided scientific proof that what the worker sells to the capitalist is labour-power instead of labour.

Let us examine the *commodity labour-power*. Labour-power is the aggregate of man's physical and mental abilities which he exercises in the process of labour. Man has a capacity for labour in any society, but labour-power becomes a commodity only under capitalism. For labour-power to become a commodity, two conditions are necessary. First, the working person should be deprived of the means of production and should have no means of subsistence. But that is not enough. After all, the

[1] Karl Marx, *Capital*, Vol. I, pp. 160, 161.

slave did not have any means of production either, but his labour-power was not a commodity, for he was himself the property of the slave-owner and could not freely dispose of his labour-power. So, the second condition for the conversion of labour-power into a commodity is the juridical freedom of its owner. Both these conditions exist only under capitalism.

The commodity labour-power, like any other commodity, has use-value and value. True, it has a specific use-value, and no other commodity has anything like it. *The use-value of the commodity labour-power consists in the worker's ability to create by his labour surplus-value*, i.e. a value greater than the value of his labour-power itself.

The value of the commodity labour-power is the value of the means of subsistence necessary for the worker and his family. It differs from one country and nation to another, for even the natural human requirements for food, clothes and shelter depend on the climatic zone. For instance, these requirements are different among the workers of Canada and Brazil. But the value of labour-power has yet another major peculiarity: the workers' basic needs are a product of historic development. They depend on the historically shaped living conditions of the working class, on the ways of its formation in this or that country.

The Production of Surplus-Value

As Marx showed, the act of the purchase and sale of labour-power leaves a distorted impression of the relations between the two main classes of the capitalist society: the capitalists and the workers. They enter the market as commodity owners, and their relations there are based on the law of value. Hence the impression of full equality between the owner of the money and the owner of the labour-power. But that is only at first sight. Bourgeois economists seek to prove that there are no contradictions between the capitalists and the workers, and no exploitation either. However, the relations between these "equal" commodity owners do not end in the market, but merely begin there.

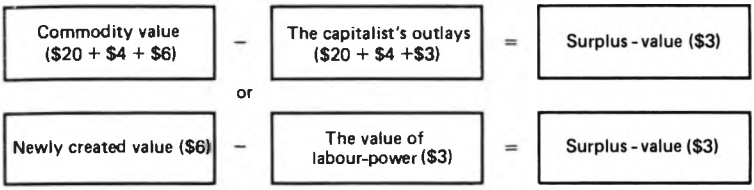
Let us take a spinning-mill, at which cotton is made into yarn. For the sake of convenience, all its workers could be regarded as a single worker, and the production cycle could be reduced to one working day.

Let us suppose that to produce 10 kilograms of yarn it takes 10 kilograms of cotton, bought by the capitalist on the market for $10. The wear and tear of the spinning machine in producing 10 kilograms of yarn comes to $2. So, the

value of the means of production expended on making 10 kilograms of yarn totals $12. The capitalist also hires a worker, paying him $3 a day. By his labour, the worker creates a new value equalling, say, $0.75 an hour.

Let us then assume that the worker turns the 10 kilograms of cotton into 10 kilograms of yarn in the course of the first four hours. By his concrete labour, he transfers the value of the means of production, equalling $12, to the new commodity (yarn), and by his abstract labour he creates a new value equalling $3, i.e., the daily value of his labour-power.

But the working day lasts eight (and not four) hours. In the second half of the working day, the worker will produce another 10 kilograms of yarn with a value of $15 ($10—the value of the cotton, $2—the value of the machine's wear and tear, and $3—newly created value). Consequently, the value of 20 kilograms of yarn comes to $30, while the capitalist has spent only $27 on its production. The difference between the value of the commodity and the capitalist's outlays constitutes surplus-value. Here is how it looks:



So, *surplus-value is the part of the value created by the wage worker over and above the value of his labour-power and appropriated by the capitalist without remuneration.*

Constant and Variable Capital

Different parts of the capital spent on the production of commodities play different roles in creating value and surplus-value.

The part of the capital that is advanced by the capitalist to buy the means of production (in our example, $20 + $4) is transferred by the worker's concrete labour to the commodity being produced and does not change the magnitude of its value. That part of the capital is called *constant capital* and is designated by the letter "*c*" (constant).

The part of the capital that is advanced to buy labour-power changes its magnitude in the process of production: its value is increased. In the process of labour, the worker produces not only an equivalent of the value of his labour-power ($3), but also surplus-value ($3). That part of the capital of called *variable capital* and is designated by the letter "*v*" (variable).

Here is Marx's formula for the value of a commodity produced at capitalist enterprises: $c + v + m$, where $v + m$ is the newly created value.

As we find, the value created by the wage worker exceeds the value of labour-power by the magnitude of the surplus-value.

Marx was the first to divide capital into constant and variable, making it possible to understand the role of each part of the capital in the formation of value and so to bring out the source of surplus-value.

The working day at a capitalist enterprise is divided into two parts.

The part of the working day in the course of which the worker produces a value equal to the value of his labour-power was designated by Marx as *necessary labour (working) time*, and the labour expended in that time, as *necessary labour*. The product created in the necessary labour time is called the *necessary product*.

The part of the working day in the course of which the worker creates surplus-value constitutes *surplus labour (working) time*, and the labour expended in that time is *surplus labour*. The product created in that time is called the *surplus product*.

The ratio of surplus-value to variable capital is known as the rate of surplus-value (m'). It is expressed by this formula:

$$m' = \frac{m}{v} \cdot 100\%.$$

In our example, the rate of surplus-value constitutes:

$$m' = \frac{\$3}{\$3} \cdot 100\% = 100\%.$$

The rate of surplus-value is a precise expression of the degree of the exploitation of wage labour by capital. With the development of capitalism, the rate of surplus-value tends to rise, indicating ever greater exploitation of the working people. In the mid-19th century, it was around 100 per cent, and now in some capitalist countries it comes to 300-400 per cent or more. In other words, the proletarian spends a smaller part of the day working for himself, and a greater part—for the capitalist.

Two Ways of Increasing the Degree of Exploitation of the Working Class

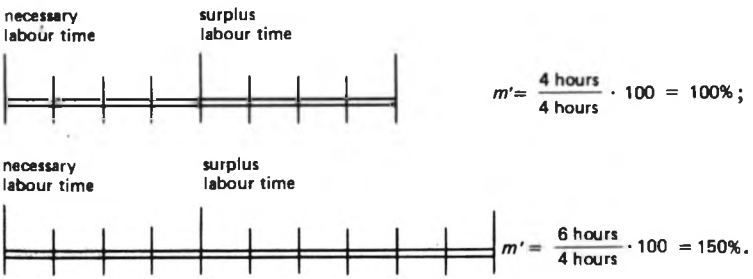
The wage worker's labour is the only source of surplus-value. To increase the mass of surplus-value, it is necessary either to increase the number of workers, i.e., to advance more variable capital, or to increase the rate of surplus-value, i.e., the degree of exploitation. Consequently, the mass of surplus-value received by the capitalist from the exploitation of all those working at his enterprise could be expressed as follows:

$$M = V \cdot m',$$

where M is the mass of surplus-value,
V is the magnitude of advanced variable capital,
m' is the rate of surplus-value.

The history of capitalism has known two main ways of increasing the degree of the workers' exploitation and lengthening the surplus labour time: through an absolute lengthening of the working day and through a reduction of the necessary labour time.

Let us assume that the working day at a capitalist enterprise is equal to 8 hours, with 4 hours of necessary labour time and 4 hours of surplus labour time. If the capitalist increases the working day from 8 to 10 hours, the surplus labour time will increase from 4 to 6 hours, so that the mass and rate of surplus-value will increase as well. With a working day of 8 hours, the degree of exploitation comes to 100 per cent ($m' = \frac{m}{v} \cdot 100 = \frac{4}{4} \cdot 100$), and with a 10-hour working day, to 150 per cent ($m' = \frac{m}{v} \cdot 100 = \frac{6}{4} \cdot 100$). Here is how the production of absolute surplus-value could be represented in graphic form:


necessary labour time
surplus labour time
$m' = \frac{4 \text{ hours}}{4 \text{ hours}} \cdot 100 = 100\%$;
necessary labour time
surplus labour time
$m' = \frac{6 \text{ hours}}{4 \text{ hours}} \cdot 100 = 150\%$.

Surplus-value obtained by lengthening the working day was designated by Marx as *absolute surplus-value*. Surplus-value obtained through an intensification of labour is also absolute,

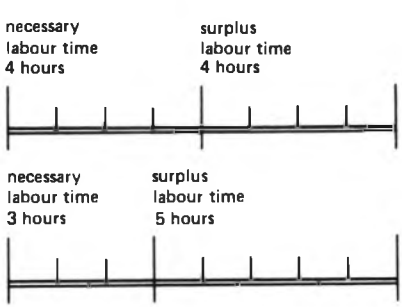
for in this case as well more value is created by the worker through an absolute increase in the amount of labour as a result of its higher intensity.

The production of absolute surplus-value prevailed at the early stages of capitalism, before the emergence of large-scale machine production. The greed for surplus labour as a major instrument of enrichment extended the social and physical bounds of the working day, which sometimes reached 16-18 hours. To stretch out the working day, the bourgeoisie made wide use of state power. Its length was established by legislation.

With the development of large-scale machine industry and rising labour productivity, the capitalists had new opportunities to increase the degree of exploitation and extract more surplus-value. That was done by reducing the necessary labour time within the same working day, i.e., by extracting *relative surplus-value*.

Rising labour productivity served to reduce the value of commodities. Labour productivity growth in industries turning out consumer goods for workers and the means of production for manufacturing these consumer goods helps to reduce the value of the workers' means of subsistence. That serves to reduce the value of labour-power, to shorten the necessary labour time and lengthen the surplus labour time. So, the degree of the workers' exploitation is increased.

Let us assume that the necessary labour time is reduced by one hour to three hours as a result of a reduction in the value of labour-power. As the necessary labour time is reduced, the surplus labour time will increase from 4 to 5 hours. This will result in an increase in the mass of surplus-value and a corresponding increase in the degree of the workers' exploitation. In our example, the degree of exploitation will go up from 100 per cent to 167 per cent ($m' = \frac{m}{v} \cdot 100 = \frac{5}{3} \cdot 100$). Here is how the production of relative surplus-value could be expressed in graphic form:



$$m' = \frac{4 \text{ hours}}{4 \text{ hours}} \cdot 100 = 100\%;$$

$$m' = \frac{5 \text{ hours}}{3 \text{ hours}} \cdot 100 = 167\%.$$

Relative surplus-value is increased through higher social labour productivity, a reduction in the value of the workers' means of subsistence, cuts in the necessary labour time and a corresponding increase in surplus labour time.

Extra surplus-value is a variety of relative surplus-value. It is the difference between the social value of a commodity and its lower individual value at capitalist enterprises with better machinery, technology and organisation of production. As the new means of labour and organisational methods spread to most enterprises in the given industry, the difference between the social and individual value of commodities disappears. The extra surplus-value received by individual capitalists or groups of capitalists disappears as well. But it appears at other enterprises, which use the latest technical achievements.

To obtain extra surplus-value, the capitalists install new machinery and improve their production methods, which helps to develop the society's productive forces. But since each capitalist seeks to extract extra surplus-value for as long as possible, he tries to keep his technical innovation secret, to prevent its spread. And that is bound to be a drag on technical progress, on the development of the productive forces.

So relative and extra surplus-value are forms in which the capitalist appropriates the achievements of technical progress. Higher labour productivity and greater intensity of labour as a result of the use of scientific and technical achievements are a major instrument in intensifying the exploitation of the working class and increasing capitalist profits.

The Essence of Capital

What is capital and when did it emerge? What is the basic distinction between the Marxist and the bourgeois definition of capital?

The representatives of classical bourgeois political economy identify capital with the means of production. Adam Smith, for instance, defined capital as stocks, as accumulated labour meant for further production. David Ricardo saw capital as any accumulated labour. Present-day bourgeois economists also identify capital with the means of production. Moreover, they say that capital also includes man's abilities, his cultural and technical standards, labour skills and even personal integrity.

Why do bourgeois economists define capital as machinery

and tools, man's physical and mental abilities and moral qualities? What are they trying to prove?

They want to prove, first, that all people in the capitalist countries possess capital and are capitalists (big or small), so that there is no exploitation and no class antagonism; and second, that capital is an eternal category inherent in any socio-economic formation. In that way, bourgeois economists seek to obscure the essential distinctions between capitalism and socialism. But their theoretical constructs cannot stand the test of reality.

Marx proved beyond any doubt that capital "is not a thing, but rather a definite social production relation, belonging to a definite historical formation of society, which is manifested in a thing and lends this thing a specific social character".[1] The means of production in themselves are not capital, but are converted into capital only when they are used to appropriate the unpaid labour of the wage workers, to obtain surplus-value. Consequently, the means of production are only converted into capital under definite social relations: under capitalist property in the means of production, which engenders relations of exploitation of wage workers by capitalists.

Take a farmer who owns a tractor and uses it himself to cultivate land and harvest a crop, selling most of the crop on the market. Since the farm is based on the commodity producer's personal labour, the tractor here is simply a means of production.

But if the farmer employs wage labour to work on his farm, the worker who operates the tractor creates a greater value than the value of his labour-power, and a part of his labour is appropriated by the farmer without remuneration. The tractor here is an instrument of exploitation and is converted into capital.

So, *capital is a value which yields surplus-value as a result of the exploitation of wage labour. It expresses the production relations between the two main classes of the capitalist society: the capitalists and the workers.*

2. WAGES

The Essence of Wages Under Capitalism

The new value created by the wage worker is divided into two parts; one of which (surplus-value) goes to the capitalist, and the other (the value of the commodity labour-power) goes

[1] Karl Marx, *Capital*, Vol. III, Progress Publishers, Moscow, 1974, p. 814.

to the worker in the form of wages. We have examined the essence of surplus-value. And what are wages? Mankind's best minds before Marx could not give a correct answer to that question.

Thus, Adam Smith and David Ricardo believed that wages are the value and price of the labour being sold by the worker to the capitalist. Present-day bourgeois economists define wages either as the price of labour, or as the price of the product of labour, or else as the price of labour services. The conclusion they draw is that since the worker sells his labour to the capitalist, there is no exploitation whatsoever.

In analysing the essence of surplus-value and the ways of increasing it, Marx was the first to prove that what the worker sells to the capitalist is not labour, but labour-power, his capacity for labour, and that labour cannot be a commodity under any circumstances. Why is that so?

First, because labour has no value. Labour creates value, but has no value of its own. Second, if labour is to be sold as a commodity, it must exist before it is sold. But the worker enters the market not with his labour, but with his capacity for labour, his production experience and labour skills. A capacity for labour, Marx showed, does not as yet mean labour, just as a capacity for digestion of food does not as yet mean its actual digestion.

Labour is a process. It begins only after the worker has sold his labour-power to the capitalist and has entered a factory, mine or plant. But as soon as the worker starts to work at a capitalist enterprise, his labour belongs to the capitalist.

Third, labour always implies an object of labour and an instrument of labour. Without these, there is only a capacity for labour. After all, why does the worker enter the labour market? Because he has no means of production. Under capitalism, he can combine his labour-power with the means of production and start the labour process only once he sells his labour-power. That is another reason why he cannot sell his labour.

And could labour be a commodity if the worker owned the means of production? If he did own the means of production, he would market the commodities he produced and would be a simple commodity producer, and not a wage worker.

So, labour can never be a commodity. *Wages are not the price of labour, but a converted (i.e., obscured, camouflaged) form of the value and thus also of the price of labour-power.*

Wages camouflage the essence of the capitalist relations of

production, extinguishing "every trace of the division of the working-day into necessary labour and surplus-labour, into paid and unpaid labour".[1] In other words, the wage worker's labour in the course of the whole working day appears to be paid labour.

Marx wrote: "In the corvée, the labour of the worker for himself, and his compulsory labour for his lord, differ in space and time in the clearest possible way. In slave-labour, even that part of the working-day in which the slave is only replacing the value of his own means of existence, in which, therefore, in fact, he works for himself alone, appears as labour for his master. All the slave's labour appears as unpaid labour. In wage-labour, on the contrary, even surplus-labour, or unpaid labour, appears as paid. There the property-relation conceals the labour of the slave for himself; here the money-relation conceals the unrequited labour of the wage-labourer."[2]

Marx's discovery of the essence of wages was of immense theoretical and political importance. It revealed the exploitive nature of the capitalist mode of production, the total economic dependence of the wage workers on the owners of the means of production.

Nominal and Real Wages

The worker receives his wages from the capitalist in the form of a definite sum of money. *The sum of money received by the worker for the labour-power sold to the capitalist is called nominal wages.* In order to determine his real wages, one should know the amount of goods and services he can buy with his nominal wages. *Real wages are the sum-total of the goods and services which a worker is able to buy with his nominal wages, following tax and other deductions.*

Numerous factors influence the magnitude of real wages, pushing these either up or down. Among the major factors serving to lower real wages are the rising prices of consumer goods and services, increases in workers' taxes, growing unemployment, increases in the share of the lower-paid strata of the working people, and state policies aimed at "freezing wages", i.e., limiting their growth through legislation.

Among the factors serving to increase real wages is the

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[1] Karl Marx, *Capital*, Vol. I, p. 505.
[2] *Ibid.*

growth of the requirements of the working class in the process of the society's economic and cultural development. Under capitalism, however, the law of growing requirements is realised in the course of a persevering class struggle. A major instrument in the struggle of the working class for higher wages is better organisation and unity of action by the working people in the struggle against the monopolies and the bourgeois state that serves monopoly interests.

Basic Forms of Wages

There are two basic forms of wages: *time-wages* and *piece-wages*. Under the former, the magnitude of wages depends on the length of the time worked, and under the latter, on the quantity of the products turned out. New varieties of time- and piece-wages emerge with the development of the capitalist mode of production.

The capitalists' main purpose in using this or that form of wages is to intensify the workers' exploitation and so to obtain maximum surplus-value.

At the early stages of capitalist development, as we already know, the main way of increasing exploitation was to lengthen the working day. That is why time-wages were the predominant form of wages in those days.

With the development of machine production, the emphasis shifted to piece-wages. Under present-day capitalism, however, there has been a return to widespread use of time-wages: in the industrialised capitalist countries, from 60 to 80 per cent of the working people are paid that form of wages. The major reason for that is the new machinery and technology of production, which set the pace of labour. That is why the capitalists find it economically inexpedient to use piece-wage systems.

But there have been considerable changes in the time-wage form of remuneration itself. It is now mostly combined with elements of piece-wages: labour norm setting and additional bonuses for greater output, better use of equipment, higher quality, and material economies.

With the help of the new varieties of time-wages, the capitalists seek to interest the workers in boosting profits, to persuade them that their interests are in harmony with those of the capitalists, and so to distract them from their economic and political struggle against the capitalist system.

3. THE BASIC ECONOMIC LAW OF CAPITALISM

As we know, the leading role in the system of economic laws inherent in each socio-economic formation, in each mode of production, belongs to its basic economic law, which expresses the most essential features of the mode of production and the character of its development.

Marx's law of surplus-value is the basic economic law of capitalism. Marx wrote: "Production of surplus-value is the absolute law of this mode of production".[1] Why is the law of surplus-value the basic economic law of capitalism?

First, because it expresses the main goal of the capitalist mode of production and the way of achieving it. "The directing motive, the end and aim of capitalist production, is to extract the greatest possible amount of surplus-value, and consequently to exploit labour-power to the greatest possible extent."[2]

Second, the law of surplus-value is the motive force behind capitalist production. In order to maximise surplus-value, production machinery and technology is improved, labour intensity and productivity raised, production costs reduced, and output increased. The scale and pace of the development of production, application of scientific and technical achievements, formation of new industries, improvements in occupational training and labour skills, cuts or increases in the number of wage workers—all these crucial economic and social processes are ultimately determined by the law of surplus-value. The capitalists' urge to maximise surplus-value has a powerful impact on all the other aspects of public life in the capitalist countries: politics, ideology and culture.

Third, the law of surplus-value expresses the basic production relation of the capitalist mode of production—that between labour and capital—and is at the root of the basic economic contradiction of capitalism, the contradiction between the social character of production and the private capitalist appropriation of the results of joint labour.

Fourth, the law of surplus-value governs not only the emergence and development of the capitalist mode of production, but also its collapse.

Marx's doctrine of surplus-value is of immense theoretical and political importance. It explains the very essence of the capitalist mode of production (exploitation of the working class

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[1] Karl Marx, *Capital*, Vol. I, p. 580.
[2] *Ibid.*, p. 313.

by the bourgeoisie) and points out the ways to eliminate man's oppression by man. That is why Engels had every reason to say that the discovery of the law of surplus-value "was the most epoch-making achievement of Marx's work. It spread the clear light of day through economic domains in which Socialists no less than bourgeois economists previously groped in utter darkness. Scientific socialism dates from the discovery of this solution and has been built up around it."[1]

4. THE INCOMES OF THE EXPLOITER CLASSES

The Costs of Production and Profit

Paul Samuelson, a present-day bourgeois economist, defines profit as "implicit" returns on the used factors of production, as a reward for enterprise and innovation, and as a premium for risk bearing by the capitalists, who expects a return on the capital invested in production. Moreover, the bourgeois researcher does not see the fundamental distinction between the worker's wages and the capitalist's profit. In that way, he tries to justify the appropriation of profit by the capitalists as allegedly earned income, to prove the absence of exploitation under capitalism, and to cover up the irreconcilable contradictions between class of wage workers and the class of capitalists.

So what is capitalist profit? Profit is a converted form of surplus-value. Why and how does the conversion take place?

Under capitalism, there is a kind of dichotomy in value. Marx wrote: "What the commodity costs the capitalist and its actual production cost are two quite different magnitudes... The capitalist cost of the commodity is measured by the expenditure of *capital*, while the actual cost of the commodity is measured by the expenditure of *labour*."[2] The *capitalist costs of production* (the cost of the commodity for the capitalist) are equal to the capitalist's outlays on the means of production and labour-power. They can be expressed as follows:

$$K = c + v,$$

where K is the capitalist costs of production,

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[1] Frederick Engels, *Anti-Dühring*, Progress Publishers, Moscow, 1975, p. 243.

[2] Karl Marx, *Capital*, Vol. III, p. 26.

c is constant capital,
v is variable capital.

The capitalist costs of the production of a commodity are lower than its true value ($c + v + m$) by the magnitude of surplus-value (m).

As we know, variable capital is the only source of surplus-value. On the surface of things, however, that fact is obscured. Why is that so?

The capitalist advances a definite sum of capital for the production of commodities. The proportion in which capital is divided into constant and variable, and the influence exerted on the value of the commodity by the various components of capital make no difference to the capitalist. He is interested in getting a return on the whole of the advanced capital.

Since the value of a commodity for the capitalist is measured by the outlays of capital, this creates the impression that the source of surplus-value is not only variable, but also constant capital, i.e., the whole of the capital expended on the production of the commodity. That is why on the surface of the capitalist society surplus-value appears to spring from the whole capital and assumes the form of profit. *Profit is surplus-value appearing as the offspring of the whole advanced capital.* That is the first qualitative distinction of profit from surplus-value.

The second qualitative distinction is that *profit is realised surplus-value*. Thus, when a definite quantity of goods produced at a capitalist enterprise are still in storage and have yet to be marketed, surplus-value has already been created, but profit has not as yet been made. The capitalist will get his profit only when the goods are actually sold.

In view of the second qualitative distinction, profit and surplus-value do not necessarily coincide. Surplus-value is the difference between the value of a commodity and the costs of its production, while *profit is the difference between the commodity's price and the costs of its production.* Where the price of a commodity coincides with its value, profit is equal to the surplus-value embodied in the commodity. Where the price of the commodity is below its value, the capitalist's profit is less than the surplus-value produced at his enterprise. This means that a part of the surplus-value has been appropriated by another capitalist. And where the price of a commodity is above its value, the given capitalist's profit is greater than the surplus-value produced at his enterprise. By selling his commodity at a price exceeding its value, the capitalist receives a part of the

surplus-value produced at the enterprises of other capitalists.

So, *as a result of commodity prices deviating from value, surplus-value is redistributed among the capitalists.*

The Rate and Mass of Profit

Each capitalist seeks to maximise his profit. The absolute magnitude of the profit he receives is called the *mass of profit* (P). It depends on two factors: the magnitude of the advanced capital (K) and the rate of profit (p'). The mass of profit is expressed by this formula:

$$P = K \cdot p'.$$

So, the greater the advanced capital, the higher (all other conditions being equal) is the mass of profit.

Every capitalist is interested not only in the overall size of the profit on the advanced capital, but also in the degree of the latter's expansion. That is expressed in the rate of capitalist profit. *The rate of profit is the ratio of the mass of profit to the whole of the advanced capital, expressed as a percentage.* Here is its formula:

$$p' = \frac{P}{K} \cdot 100, \text{ or } p' \frac{P}{(c+v)} \cdot 100.$$

Clearly, one of two capitalists with the same magnitude of advanced capital—the one whose rate of profit is higher—will receive more profit. Marx wrote: "The rate of profit is the motive power of capitalist production. Things are produced only as long as they can be produced with profit."[1]

On what factors does the rate of profit depend? The answer to that question is very important for understanding the relation between labour and capital, and also between different groups of exploiters in the capitalist society: industrialists, commercial and loaning capitalists, and landowners.

There are four such factors. The first and most important of these is the rate of surplus-value. The higher the rate of surplus-value, the higher is the rate of profit.

Take two capitalists with the same amount of advanced capital: $100,000 ($90,000 of constant capital plus $10,000 of variable capital). Let us assume that the degree of exploitation

[1] Karl Marx, *Capital*, Vol. III, p. 259.

at the enterprise of the first capitalist is 200 per cent, and at that of the second capitalist, 400 per cent. The value of the commodities produced at the first enterprise will amount to \$120,000 ($90{,}000c + 10{,}000v + 20{,}000m$), and the rate of profit, to 20 per cent ($\frac{20{,}000}{90{,}000+10{,}000} \cdot 100$). The value of the commodities produced at the second enterprise will amount to \$140,000 ($90{,}000c + 10{,}000v + 40{,}000m$), and the rate of profit, to 40 per cent ($\frac{40{,}000}{90{,}000+10{,}000} \cdot 100$).

The second factor influencing the rate of profit is the organic composition of capital, i.e., the ratio of constant capital (the value of the means of production) to variable capital (the value of the labour power that sets these in motion). Since constant capital does not create any surplus-value, it is clear that the higher the organic composition of capital, the lower (all other conditions being equal) is the rate of profit.

Thus, if the advanced capital of the second capitalist (whose rate of surplus-value is 400 per cent) consists of $90{,}000c$ and $10{,}000v$, the organic composition of capital will be 9:1, and the rate of profit will come to 40 per cent. But if the organic composition of capital goes up to 19:1, the rate of profit will decline. Commodity value in that case will equal $95{,}000c + 5{,}000v + 20{,}000m = \$120{,}000$, and the rate of profit, 20 per cent.

The third factor is the velocity of the turnover of capital. If the capital of the first capitalist performs one circuit in the course of a year, the rate of profit, as we have already seen, will constitute 20 per cent. But if the velocity of the turnover is doubled, commodity value will constitute $(90{,}000c + 10{,}000v + 20{,}000m) \cdot 2 = \$240{,}000$, the mass of profit will be \$40,000, and the rate of profit will double to 40 per cent ($\frac{40{,}000}{(90{,}000 + 10{,}000)} \cdot 100$).

The fourth factor is economies in constant capital. The better the use of equipment, raw and other materials, fuel and electric power, the lower are the costs of production and the higher is the rate of profit.

Formation of the Average Rate of Profit

At the early stages in the development of capitalist production, the rate of profit differed from one industry to another. With

the development of capitalism, however, there is ever greater competition between capitalists for the best terms of capital investment and the highest profit. *Intersectoral competition* entails a transfusion of capital from industries with a lower rate of profit to those with a higher rate of profit.

Take three industries with the same magnitude of advanced capital but with its different organic composition (the ratio of constant capital to variable capital). Let us assume that capital in the first industry (say, electrical engineering) contains $90c + 10v$, in the second one (textile), $80c + 20v$, and in the third one (clothing), $70c + 30v$. Under one and the same degree of exploitation (say, 100 per cent), 10 units of surplus-value will be produced in the first industry, 20 in the second, and 30 in the third. The value of the commodities produced will come to 110 in the first industry, 120 in the second, and 130 in the third. If the commodities are sold at a price that is equal to value, the rate of profit will come to 10 per cent in the first industry, 20 per cent in the second, and 30 per cent in the third.

Differences in the rate of profit in different industries cannot be maintained for long, since each capitalist seeks to obtain the highest profit on the advanced capital and will thus look for the most profitable sphere of investment.

Under free competition, when there are no insurmountable barriers to the flow of capital from one industry to another, the capitalist will try to withdraw his capital from electrical engineering and invest it in a more profitable industry, in this case the clothing industry. What will happen in these two industries? The outflow of capital from the first industry will reduce the scale of production and the supply of commodities in that industry, commodity prices will rise above value, and the rate of profit will increase. In the clothing industry, the influx of capital will serve to develop production, the supply of goods will exceed the demand for them, so that prices will drop below value, and the rate of profit will fall. When the rates of profit in all the three industries will be equalised into an average, or general, rate of profit (20 per cent in our example), the ebb and flow of capital will temporarily cease.

Under a free transfusion of capital from one branch of production to another, *there is a spontaneous evening out of the rates of profit into an average rate of profit*, i.e., equal profit on equal capitals invested in different branches of production. In view of the formation of the average rate of profit, commodities under capitalism are not sold at value, but at the price of production. *The price of production includes the costs of production and the average profit on the advanced capital.*

The Working Class and the "Freemason Society" of Capitalists

Marx's doctrine of average profit and the price of production is of great theoretical and practical importance.

First, by showing the mechanism of the formation of the average rate of profit, Marx brought his theory of surplus-value to its logical conclusion, to an analysis of the concrete form (average profit) in which surplus-value manifests itself under capitalism.

Second, he revealed the mechanism of the distribution of surplus-value among capitalists in proportion to the size of their capitals, irrespective of their sphere of investment and organic composition.

Third, Marx's doctrine of average profit is of immense practical importance for the proletariat's revolutionary struggle against the capitalist system. The mechanism of the average rate of profit shows that the individual capitalist's income depends not only on the degree of exploitation of the workers at his own enterprise, but also on the degree of exploitation of the whole working class by the capitalist class, which is interested in a systematic drive to intensify the exploitation of the proletariat. As Marx pointed out, here "we have a mathematically precise proof why capitalists form a veritable freemason society vis-à-vis the whole working-class, while there is little love lost between them in competition among themselves".[1]

Employers' unions are a major organisational form of that "freemason society", and play an immense role in the economy and politics of the capitalist countries.

Marx's conclusions are highly important for elaborating the strategy of the revolutionary struggle: the working class and all the working masses should join forces to counter the "freemason society" of the bourgeoisie.

Commercial Profit

As the scale of capitalist production grows and markets expand, the need arises for a special group of capitalists who would only market commodities. So, commercial capitalists emerge alongside industrial capitalists.

Commercial capitalists receive their income in the form of

[1] Karl Marx, *Capital*, Vol. III, P. 198.

commercial profit. What is its source? Since commercial capital takes no direct part in the production of value and the surplus-value embodied in it, the source of commercial profit (under equivalent exchange) can only be a part of the surplus-value created in the sphere of production.

How does commercial capital attract that part of the surplus-value? It was Marx who gave a correct answer to that question.

Take the example given by Marx in his *Capital* (Volume III, Chapter 17). The whole of industrial capital advanced for the production of goods in the course of a year amounts to 900 monetary units and consists of $720c$ and $190v$. Under a 100 per cent rate of exploitation, surplus-value will equal 180 monetary units.

It could appear at first sight that the average rate of profit for industrial capitalists will be 20 per cent:

$$\frac{180m}{720c+180v} \cdot 100 = 20\%.$$

But in order to get their profit, industrial capitalists should market their commodities, and that requires additional capital. Let us assume that commercial capitalists advanced 100 monetary units for the sale of these commodities. The rate of profit resulting from the involvement of commercial capital in the movement of the whole advanced capital will then equal 18 per cent:

$$\frac{180m}{900+100} \cdot 100 = 18\%.$$

If the industrial capitalist markets his commodities himself, he will receive the whole surplus-value, but if he entrusts the marketing of his commodities to a commercial capitalist, he will concede these 18 per cent to the latter by selling him the commodities in question 18 units below value. The commercial capitalist will then sell the commodities at value and receive an 18 per cent profit on the invested capital.

Of course, the distribution of surplus-value between the industrialists and the commercial capitalists takes place spontaneously, in the course of competition, notably, through a transfusion of capital. The former want to sell their goods at the highest possible price, while the latter seek to buy them as cheaply as possible. When commercial profit falls below the average rate of profit in industry, some commercial capitalists move their capital from the sphere of trade to industry. And when, on the contrary, commercial profit rises above the average rate of profit in industry, some industrial capitalists move

into trade. As a result of the movement of capital from industry into trade and back again, the rates of profit of industrial capitalists and commercial capitalists are evened out into an average rate of profit on equal capitals.

So, *commercial profit is that part of the surplus-value created in the sphere of material production which the industrial capitalist concedes to the commercial capitalist for his services in marketing commodities.*

Loan Capital and Loan Interest

Apart from industrial and commercial capital, there is also *loan capital, or money capital whose owner makes it available (loans it out) for a definite charge.*

These funds are primarily concentrated at the banks, which offer loans to industrial and commercial capitalists and receive an income in the form of *loan interest*. Loan capital plays such an important role in the economy of present-day capitalism that one can hardly understand many crucial economic phenomena and processes without understanding the essence of that capital.

Take a simple example. The industrial capitalist borrows $100,000 from a bank and returns it with interest a year later. If the sum he returns is, say, $105,000, the extra $5,000 is loan interest. But what is the essence of loan interest? What is the source of its formation?

Bourgeois economists assert that loan interest is the "price" of loan capital. Price is the money expression of value. Can $5,000 express the value of $100,000? Of course, not. Moreover, the $100,000 is not being sold, but is handed over for temporary use, for the loan is always meant to be returned.

Marx showed that in addition to its conventional use-value (as a universal equivalent), money under capitalism acquires a specific use-value: an ability to function as capital, as an instrument for making profit. And loan interest is the payment for the use of that specific use-value of loan capital as a commodity.

So what is the source of loan interest? It is a part of the surplus-value created through the exploitation of wage labour in the course of the use of the borrowed capital. In the above example, the capitalist has borrowed $100,000 and invested that in production. He buys new machinery, instruments and materials, and hires additional labour-power in order to pro-

duce more commodities. At the end of the year, the capitalist receives $120,000. The profit of $20,000 is divided into two parts. The part of the profit ($5,000) which the functioning capitalist gives to the loan capitalist is called *loan interest*, and the part of the profit that remains at the disposal of the functioning capitalist ($15,000) is called the *profit of enterprise*.

So, *loan interest is a converted form of surplus-value, that part of it which the functioning capitalist hands over to the loan capitalist for the use of capital.*

On what does loan interest depend? Its magnitude is determined by the correlation between the supply of loan capital and the demand for it, which in turn depend on the economic outlook. The higher the demand for loan capital, the higher is the loan interest.

With the separation of loan capital from the capital that functions in industry and trade, capital as property is separated from capital as a function. Capital as property is personified in the banker, while capital as a function, in the industrialist and the trader.

On the surface of events, the profit of enterprise appears as the capitalist's "wage", as "payment" for running production, instead of a result of the exploitation of wage labour. With the development of capitalist production, amalgamation of enterprises and establishment of joint-stock companies, that illusion disappears as well. Production is now run by hired managers (although the top ones can be capitalists), while the capitalists are left to clip coupons and receive a profit. In that sense, functioning capital draws closer to loan capital, to capital as property.

Ground Rent

Apart from the three groups of capitalists (industrial, commercial and loan), there is yet another group of exploiters under capitalism, who live at the expense of other people's labour. These are the landowners, who receive an income in the form of ground (land) rent.

The theory of ground rent demonstrates the need to eliminate private property in land and to hand over the land to those who tills it. That theory provides a scientific basis for an alliance between the working class and the toiling peasantry in the struggle against capitalism. The theory of ground rent, formulated by Marx and developed by Lenin, now lies at the

root of the agrarian programmes of con inist and wo kers' parties.

Ground rent existed under feudalism in the form of labour rent (or corvée), rent in kind (or natural quit-rent), and money rent (or money quit-rent). Feudal ground rent included the whole of the surplus product created by the serfs, and sometimes even a part of the necessary product.

Capitalist ground rent cannot swallow up the whole of the surplus product, for a part of it should go to the capitalist leaseholder. This part should correspond to the average rate of profit extracted by industrial and other capitalists on the capital they invest, since otherwise capitalists would not invest their capital in agricultural production.

That is why in answer to the question about the difficulty of understanding ground rent, Marx wrote: "The difficulty consists rather in showing the source of the excess of surplus-value paid the landlord by capital invested in land in the form of rent, after equalisation of the surlus-value to the average profit among the various capitals... In other words, the source subsequent to this equalisation and the apparently already completed distribution of all surplus-value which, in general, is to be distributed."[1] No economist before Marx had given a correct answer to that question.

As Marx showed, under capitalism there are two main forms of ground rent: absolute and differential.

Differential Rent

The tracts of land cultivated in each country differ in fertility and location. The costs of production per unit of output on the best lands are lower than those on the worst, so that the leaseholders of the best lands derive extra surplus-value.

But extra surplus-value exists in any industry, for there are enterprises with different levels of labour productivity and, consequently, with different individual costs of production. So why is there no rent in manufacturing, in contrast to agriculture?

The point is that the advantages of industrial enterprises resulting from better conditions of production are only temporary. With adequate capital, other capitalists can build enterprises equipped with more advanced machinery and technology,

[1] Karl Marx, *Capital*, Vol. III, p. 782.

making it impossible for the owners of the currently best enterprises to receive extra surplus-value.

The extra part of the surplus-value paid to the landowners by the capitalist leaseholders of the best and average tracts of land is essentially the same extra surplus-value as in industry. But in agriculture extra surplus-value is a relatively constant phenomenon, for natural fertility is a relatively constant property of the land. Since the quantity of land suitable for cultivation (especially the best and average in fertility) is limited, and since the land is divided into private estates, there is a *monopoly on land as an object of economic activity*. That monopoly enables the capitalist leaseholders of the best and average lands to obtain extra surplus-value, which is appropriated by the owner of the land in the form of ground rent.

In contrast to industry, the social price of the output produced in agriculture is determined by the worst rather than the average economic conditions.

Let us assume, for example, that three capitalist leaseholders have invested their capitals ($100,000 each) in land tracts of equal area, but with differing fertility. Let us also assume that the average rate of profit in the society is 20 per cent. So, the individual price of the production of the whole mass of output on each tract of land is $120,000. But the first leaseholder produced 4,000 tons of grain, the second 5,000 tons, and the third 6,000 tons. That is why the individual price of the production of one ton of output will come to $30 on the first tract, $24 on the second, and $20 on the third.

Each ton of grain is marketed at the social price of production, equalling $30. So, by selling his grain at $30 a ton, the first capitalist will receive $120,000, i.e., a sum equal to the cost of production and average profit. The second capitalist will sell his 5,000 tons of grain for $150,000, receiving $30,000 over and above the average rate of profit, and the third will sell his 6,000 tons of grain for $180,000, receiving $60,000 over and above the average rate of profit. As a result of higher labour productivity on the second and third tracts of land, the capitalist leaseholders will obtain superprofit, which they hand over to the owners of the land in the form of differential rent.

Why is the social price of production in agriculture determined by the worst rather than the average conditions of production?

If the social price of production were determined by the average rather than the worst conditions of production, the

capitalist leaseholder of the least fertile land would not only fail to receive an average profit on his capital upon the marketing of his output, but would not even recoup his production costs. Clearly, he would then withdraw his capital from agriculture and invest it in industry or trade, so that the least fertile land would no longer be cultivated. That would entail a shortage of farm produce, an excess of the demand for it over its supply, and higher prices. It would then become profitable to cultivate the least fertile lands alongside the best and average.

The conclusion is that no matter how many categories of land fertility there are, *the social price of the production of a unit of farm produce is determined by the conditions of production on the worst tracts of land, and not by the average conditions of production.*

The capitalist leaseholders of the most fertile and average lands obtain extra surplus-value. Like any surplus-value, it is created by the labour of wage workers. But that extra surplus-value does not remain with the capitalist leaseholders; it is appropriated by the owners of the best and average lands, since there is a monopoly on land as an object of economic activity.

So, *differential rent is a part of the surplus-value created by the labour of agricultural wage workers and appropriated by the landowners.* It is equal to the difference between the social price of farm produce determined by the conditions of production on the worst lands and the individual price of its production on the most fertile lands.

We have examined the formation of differential rent from differences in soil fertility (Marx called it differential rent I). Differential rent I is also formed from differences in location, such as the distance from marketing outlets, railway stations and ports. Its magnitude is determined not only by economies in the delivery costs of the finished product, but also in expenses which are a part of the costs of production: expenses connected with the delivery of seed, mineral fertilizers, machinery, equipment, and so on.

In contrast to differential rent I, differential rent II is not connected with natural soil fertility, but with intensification of agricultural production, with additional capital investments in one and the same tract of land. Such additional investments (use of fertilizers, new machinery, irrigation, land improvement, etc.) serve to increase the amount of farm produce, bringing in additional profit, which is converted into differential rent II. Its formation could be illustrated as follows.

Let us assume that the capitalist leaseholder of the best tract

of land (the third tract in the above example) invests an additional capital of $100,000 in order to increase soil fertility, and obtains an additional 5 tons of grain. The additional capital investment yields differential rent II, which amounts to $30,000 ($30 × 5,000 — $120,000).

Differential rent II goes to the capitalist leaseholder himself until the term of the lease contract expires. That is why he is interested in lengthening that term, while the landowner seeks to shorten it.

Absolute Rent

As we know, the leaseholder of the worst tract of land does not pay any differential rent to the landowner. But can one imagine the latter leasing out his tract of land free of charge? Of course, not. He demands payment for the worst land as well, and that payment is known as absolute rent. It was Marx who first proved the existence of absolute rent. He called it absolute because it is paid by the leaseholder of any cultivated tract of land.

As we saw, the leaseholders of the best and average lands pay differential rent solely because these lands are more fertile, and not because they are private property. As Marx demonstrated, the reason for the existence of absolute rent is the existence of private property in land. Consequently, *absolute rent is a tribute paid by the capitalist leaseholders to the landowners for the right to invest capital in a tract of land.*

But where does the leaseholder get that tribute? Marx notes that private property in land slows down the development of agricultural production, for the organic composition of capital in agriculture is lower than in industry. That is why even with an equal degree of the exploitation of wage labour, every unit of advanced capital in agriculture brings in more surplus-value than it does in industry. Under private property in land, free movement of capital from industry to agriculture is virtually impossible, and the excess of surplus-value created in agriculture is not redistributed among industrial and agricultural capitalists, but remains in agriculture. In view of that, farm produce is marketed at value, and not at the social price of production. *The difference between the value of farm produce and the social price of its production constitutes absolute rent.*

Scientific and technical progress in agriculture leads to a rapid increase in capital investments in land. As the organic

composition of capital in agriculture rises and draws closer to that in industry, and as agriculture is integrated with other branches of the economy, this only alters the mechanism of the formation of absolute rent, but does not eliminate the cause of its existence.

Monopoly Rent

Monopoly rent exists in capitalist agriculture alongside differential and absolute rent. It is received by the owners of tracts of land which are used to produce rare products (like special varieties of grapes). If the demand for these appreciably exceeds supply, their market price rises above their value, and a monopoly price is established. The difference between the monopoly price of such a product and its value constitutes monopoly rent, which is appropriated by the owners of the rare lands. The source of monopoly rent is the buyer's pocket.

Capitalist Ground Rent as a Brake on the Development of Agriculture

Capitalist ground rent, especially absolute rent, obstructs the development of the productive forces in agriculture. Intensification of agricultural production leads to higher yields and to the formation of differential rent II, which goes to the capitalist leaseholder until the expiry of the lease contract. When a new contract is signed, the landowner increases the rental payment and appropriates differential rent II. Since the fruits of technical progress thus go to the landowner, the leaseholder has little incentive to improve his farming techniques.

Absolute ground rent plays an even more adverse role in the development of the productive forces. Instead of using their capital to improve the land and farming techniques, the leaseholders have to pay a huge tribute to the landowners. Elimination of private property in land frees the society from paying that tribute to the landowners, the prices of farm produce go down, and capitalist leaseholders and working farmers no longer have to make rental payments.

Under imperialism, the monopoly of private property in land often coalesces with the monopoly of finance capital. Suffice it to say that over one-half of all the land farmed in the USA belongs to banks and other financial corporations. The finance

capital owning the land plunders the petty leaseholders. Small and medium-size family farms which cannot afford expensive means of intensifying production cannot compete with big capitalist farms and are ruined, while their owners become agricultural workers. With the development of capitalism, their number increases. Ruin and exploitation induces the farmers to rise up in struggle not only against the big landed proprietors, but also against the capitalist class as a whole.

So, the source of the incomes derived by all groups of exploiters—industrialists, traders, bankers and landowners—is the surplus product created by the labour of wage workers. To bring exploitation to an end, the working class, the working peasantry, and all the other working people should carry on a joint revolutionary struggle against the exploiters.

QUESTIONS FOR DISCUSSION

1. What is labour-power? Under what conditions does labour-power become a commodity?
2. What are the ways of increasing surplus-value?
3. Why did Lenin call the doctrine of surplus-value the cornerstone of Marx's economic theory?
4. What is capital?
5. What are the forms of wages?
6. What does the basic economic law of capitalism express?
7. What is profit?
8. How is average profit formed? What is the significance of Marx's doctrine of average profit for the working-class struggle?
9. How does the commercial capitalist extract commercial profit?
10. How is differential ground rent formed and who appropriates it?
11. What is the cause of the formation of absolute rent and where does it come from?

Chapter Four
POVERTY AMID PLENTY

> Wages, *even* with the most stubborn and *most* successful strike movement, are increasing much more slowly than the necessary expenditure of labour power. And side by side with this, the wealth of the capitalists is increasing at a dizzy rate.
>
> *Lenin*

Now that capitalism has reached a high development level of the productive forces, it has at the same time made man a slave of the accumulated wealth, engendering such a paradoxical phenomenon as chronic unemployment, when millions of able-bodied people are out of work in spite of a considerable number of job vacancies.

What is the cause of that phenomenon, and can it be eliminated without an end to capitalist property in the means of production? These questions face all the contingents of the world revolutionary movement. The ways and forms of the working-class movement in the capitalist countries and the further course of the ideological contest between socialism and capitalism in many respects depend on a correct scientific understanding of these questions. They should also be studied in order to appreciate the successes of the socialist countries in every sphere of life, successes scored along the way pointed out by the Marxist-Leninist theory.

In this chapter, we shall examine the accumulation of capital, the growth of unemployment, and the worsening condition of the working masses under capitalism.

1. A TRAGEDY FOR MILLIONS

Unemployment has now reached such dimensions as to become a tragedy for millions of working people in the capi-

talist countries. It is ever more difficult for most people in the capitalist society to make a living.

The "Right" to Work

High-ranking officials and bourgeois ideologists have been calling for human rights—in the Soviet Union and other socialist countries. But how about human rights in the capitalist countries themselves?

One of the basic and natural human right is the right to work. Article 23 of the Universal Declaration of Human Rights, adopted by the UN General Assembly in 1948, says: "Everyone has the right to work, to free choice of employment, to just and favourable conditions of work, and to protection against unemployment."

The Constitution of the USA says nothing at all about the right to work, while the constitutions of most capitalist states proclaim that right only nominally. Thus, the Constitution of Japan says: "All people shall have the right and the obligation to work", and Italy's Constitution declares: "The Republic recognises the right to work for all citizens and promotes conditions for putting that right into effect."

So how do bourgeois states "promote" realisation of that right? When the Italian Constitution was adopted in 1949, the official number of unemployed in the country was 1.9 million, and in 1985 it was 2.5 million; when the Japanese Constitution went into effect in May 1947, the country had 240,000 unemployed, and in 1985 the figure was 1,560,000; when the FRG Constitution was adopted in May 1949, there were 1,230,000 unemployed in the country, and in 1985 the figure was 2,300,000.

Those are the official figures. In actual fact, the number of unemployed is much higher, for bourgeois statistics does not take into account many categories of working people who are actually unemployed or semi-unemployed. These include workers and employees who have given up their futile search for a job (in the USA alone, their number was 1.4 million in 1984), those switched to a short working week, laid off for a period or pensioned off before the due time, and school-leavers who cannot find a job. According to the International Labour Organisation, at the end of 1982 the number of fully unemployed was 30 million in the developed capitalist countries and 45 million in the developing countries, and the number of partially

unemployed was 16 million in the former and over 410 million in the latter. So, 75 million people in the capitalist world have no job at all, and 426 million have only a part-time job. That amounts to one-third of the whole able-bodied population of the capitalist world. One-third of all those who are willing and able to work are deprived of such an opportunity (in part or altogether) and suffer the tortures of unemployment in varying degree. Isn't that a graphic indicator of the capitalist system's inhumanity?

The past few years have not only seen an increase in the total number of unemployed, but also significant changes in their composition. In the past, most of them were low-skilled or unskilled, odd-job workers, whereas today unemployment has spread to all categories of working people: highly skilled workers, engineers, technicians, office employees, service personnel, government officials, school-teachers and university staff.

Unemployment also affects all the age brackets, but young people and older workers are the most to suffer. Thus, youth unemployment in the USA has in recent years been roughly double the average rate of 7-10 per cent.

The Causes of Unemployment

Unemployment is an old malaise of capitalism. Its social consequences are so great that even bourgeois economists cannot evade these questions. What, in their opinion, are the causes of unemployment and what measures do they suggest to combat it?

The English economist Thomas R. Malthus explained the working people's poverty and unemployment not by economic, but by biological laws, by the "eternal laws of nature". He believed that unemployment and poverty of the working masses were a feature of all historical epochs. He saw the main reason for poverty in faster growth of the population as compared with the production of the means of subsistence. He wrote "that the principal and most permanent cause of poverty has little or no *direct* relation to forms of government, or the unequal division of property; and that, as the rich do not in reality possess the *power* of finding employment and maintenance for the poor, the poor cannot, in the nature of things, possess the right to demand them". In order to get rid of the superfluous population, Malthus recommended such "positive checks" as "epi-

demics, wars, plague and famine".[1] Many present-day bourgeois ideologists advocate the same "checks", saying that Malthus' views continue to have relevance.

In asserting that the production of material values lags behind population growth, Malthus in effect assumed that the development level of the productive forces did not change. In actual fact, however, there is constant scientific and technical progress. People use the means of production they create to multiply the amount of diverse means of livelihood. Present-day figures show that as a result of scientific and technical progress and labour productivity growth, the production of material values has been growing faster than the population. In spite of that, however, poverty among the working people and the number of unemployed in the capitalist countries have been growing. Why has massive unemployment become a permanent feature of life in the capitalist countries, and why do the working people's living conditions often deteriorate? The English economist John Maynard Keynes, whose views are widely accepted in bourgeois political economy, tried to answer these questions.

Keynes argued that unemployment is connected with insufficient "effective demand", that is, insufficient demand for consumer goods and means of production. And the blame for that, he says, lies on the people themselves, who are inclined to consume an ever smaller share of their growing incomes and to save an ever greater share.

In other words, Keynes attributed insufficient demand to the human mentality, saying that the "propensity to consume" declines as incomes and savings grow. The incentive for capitalists to invest is allegedly weakened by the high lending rate, which does not create favourable conditions for an expansion of production and is thus a factor of higher unemployment. Keynes drew the conclusion that the lending rate determined the scale of capital investments and the employment level, and recommended state regulation of aggregate market demand.

In his view, the state should reduce the lending rate and increase the amount of paper money in circulation in order to stimulate investments and boost employment.

Keynes elaborated a package of measures aimed at increas-

[1] *An Essay on the Pinciple of Population or a View of Its Past and Present Effects on Human Happiness with an Inquiry into Our Prospects Respecting the Future Removal or Mitigation of the Evils which It Occasions*, By the Rev. T.R. Malthus, Ward, Lock and Co., Ind., NY, and Melbourne, 1890, p. 541; pp. 2, 9, 10.

ing government expenditures, with emphasis on larger military outlays. But it is only the capitalists who profit from the militarisation of the economy and preparation for war, whereas the working masses suffer further privations.

The Keynesian programme for government regulation of employment in effect aims to maximise capitalist profits and seeks to justify the bourgeoisie's offensive against the working people's living standards through controlled inflation so as to distract them from the struggle against the exploiters. The flimsiness of the Keynesian doctrine has been confirmed by the whole course of capitalist development.

In recent years, bourgeois politicians and researchers have been saying that unemployment has a voluntary nature. They put the blame for unemployment on the people themselves, saying that some are lazy and do not want to work, while others make unreasonable demands on working conditions and the terms of payment. That is why the suggestion is to combat unemployment by reducing unemployment benefits and paying these out over shorter periods, and by abolishing or lowering the legal wage minimum. But such suggestions merely serve to cover up the capitalist state's inability to provide work for all able-bodied people.

What are the true causes of unemployment and why are the measures taken by bourgeois states to eliminate it so ineffective? Marxist-Leninist political economy gives a correct answer to these questions. It was Marx who showed that the cause of unemployment is the capitalist mode of production itself.

The point is that each capitalist does not spend the whole of his surplus-value for personal consumption. The greed for profit and relentless competition induce the capitalists to keep turning a part of the surplus-value into additional capital, i.e., to increase their functioning capital.

As they accumulate capital, the capitalists buy more means of production: machinery, equipment and tools. In the course of scientific and technical progress, these tend to become ever more productive. Each worker can now process more raw materials than before. Capital accumulation alters the ratio between constant and variable capital in the whole amount of advanced capital. This means that with the development of capitalist production, there is a change in the organic composition of capital ($\frac{c}{v}$). The growing organic composition of capital reflects the declining share of living labour in the value of the product as compared with that of embodied labour.

Thus, when miners use jack hammers, the capitalists use the bulk of the advanced capital to buy labour-power. But with the emergence of the coal cutter-loader and an increase in the use of electric power, the capitalists spend more on the purchase of the means of production and less on the purchase of labour-power. Consequently, with the accumulation of capital, the development of production technology, and labour productivity growth, the share of the capital advanced to buy means of production grows faster than the share of the capital used to buy labour-power.

The more rapid growth of the constant part of the advanced capital as compared with its variable part provides an objective basis for a relative decline in capitalist demand for labour-power, although the total number of employed tends to grow with the development of the capitalist economy and the emergence of new branches and lines of production.

At the same time, capital accumulation and concentration of the means of production at large enterprises lead to the ruin and closure of small enterprises, with small commodity producers turning into wage workers. The number of people who have no means of production and acquire the necessary means of livelihood solely by selling their labour-power tends to grow, so that there are more wage workers. But since with the accumulation of capital and technical advances in production the share of variable capital in the total amount of invested capital is reduced, the growth of the number of wage workers increasingly outstrips the capitalist demand for labour-power. So, accumulation of capital and growth of its organic composition with the development of capitalism creates a *relatively surplus working population, which cannot apply its labour-power and which constitutes an army of unemployed.*

With the accumulation of capital, ever new sophisticated means of labour and technological processes are used in production. But the objective growth of labour productivity as a result of improvements in the productive forces is used by the capitalists to maximise profit and increase their own fortunes, and not to meet the requirements of the working people. This leads to a decline in the capitalist demand for labour-power, deprives thousands of people of their jobs, and limits the possibilities for creating new jobs. Consequently, *the growth of the organic composition of capital inevitably engenders an industrial reserve army of labour.*

Scientific and technical achievements are primarily applied to intensify the exploitation of hired labour-power. The ongoing

scientific and technical revolution has markedly accelerated the growth of the organic composition of capital, and the share of the population constituting the industrial reserve army of labour has increased accordingly.

Unemployment is an indispensable feature of the capitalist mode of production. "The labouring population therefore produces, along with the accumulation of capital produced by it, the means by which it itself is made relatively superfluous, is turned into a relative surplus-population; and it does this to an always increasing extent. This is a law of population peculiar to the capitalist mode of production..."[1] The capitalist law of population discovered by Marx exposed the unscientific doctrines of Malthus and other bourgeois economists, who tried to explain unemployment and the working people's low living standards either by an "eternal law" of population or the mentality of the economic subject.

The bourgeoisie is interested in maintaining a definite level of unemployment. The army of unemployed is not only a consequence of capitalist production, but a necessary condition of its existence. During an economic recovery, capitalists draw upon that reserve of labour-power to expand production at a rapid pace. During an economic crisis, the reserve army of labour makes it possible to cut wages, intensify labour, lengthen the working day, and so increase the exploitation of those who have a job.

The Main Forms of Unemployment

Marx singled out *three main forms of unemployment.* Most of the unemployed are afflicted by *current unemployment.* They lose their jobs for a time without losing their professional skills. That section of the unemployed swells in periods of economic crises and shrinks in boom periods.

Latent unemployment takes shape as small-scale farming is ousted by large-scale capitalist production. It includes all-but-ruined farmers, without adequate means of subsistence, and also a part of the urban population: impoverished artisans and small traders.

Stagnant unemployment is a term applied to people with highly irregular employment. As certain branches of the economy decline, they cannot find a job for a long time. The lowest

[1] Karl Marx, *Capital*, Vol. I, pp. 591, 592.

stratum of stagnant unemployment includes those who have despaired of finding a job, who have lost all their skills in the face of the new demands presented by the technological revolution, those who have degraded from years of idleness, and declassé elements (criminals, tramps, etc.).

Since unemployment under capitalism is massive and chronic, it presents a grave social problem. Under pressure from the working people, the capitalist states have had to make some socio-economic concessions, wrested from them by the working class in the course of a persevering struggle, and to take measures to create new jobs and reduce unemployment. The need for jobs, however, is always greater than the number of jobs created.

The communist and workers' parties in the capitalist countries, which head the working people's struggle for the right to work, a basic human right, start from the assumption that the unemployment problem cannot be fully solved under capitalism once and for all. For that it is necessary to eliminate the capitalist mode of production, which engenders relations of exploitation. At the same time, the proletarian vanguard has been elaborating concrete programmes of measures which rally the working class and all the other working people for a struggle against monopoly rule and help to ease the pain of unemployment right now, under the existing system, to raise the people's living standards. These programmes urge the need to shorten the working week without wage cuts, abolish overtime, lower the pension age and raise pensions, lengthen paid holidays, stand up to the monopolies in their attempts to close down enterprises, create new jobs, extend the system of occupational training and refresher training, give workers' trade unions a greater say in matters of labour and wages, hire and dismissal, and reduce the huge military expenditures which divert funds from improving the people's working and living standards.

2. THE RICH GET RICHER, WHILE THE POOR GET POORER

Bourgeois ideologists like to boast of the capitalist society's wealth. As its wealth increases, they say, the condition of the working class improves and the gap between the incomes of different social strata narrows as a result of an "incomes revolution".

Indeed, the national wealth of the USA, Britain, France, the FRG, Japan and other capitalist countries, created by the working people, is most impressive. But how is that wealth distributed? Is the incomes gap between the rich and the poor actually decreasing?

Relative Worsening of the Working Class' Condition

Marx answered these questions in his *Capital*, and his answers are being confirmed by life. Having shown that the exploitation of the working class intensifies with the development of capitalism, Marx proved that an ever smaller share of the newly created product, or national income, goes to the working class and other working people, and an ever greater share, to the exploiter classes. That amounts to a *relative worsening of the condition of the working class*. It is also manifested in the shrinking share of the blue-collar and white-collar workers in the gross social product and the national wealth.

Another clear indication of the relative worsening of the working class's condition is the faster growth of capitalist profits as compared with the wages and salaries of the blue-collar and white-collar workers.

Bourgeois economists manipulate statistical data in a bid to prove that the working people's share in the population's aggregate incomes has been steadily growing. But, first, they forget to mention that the proportion of workers and office employees in the total population is also increasing as a result of proletarianisation. In the USA, for instance, it went up from 72 per cent in 1940 to 91 per cent in 1983. Second, the incomes of top executives, high-ranking officials and the military are included in the earned incomes of workers and employees, although these are representatives of the exploiters. But even bourgeois statistics itself confirms the growing polarisation of the capitalist society. In Britain, for instance, 1 per cent of the population appropriate roughly 25 per cent of the country's incomes, while 50 per cent get under 6 per cent of the total.

An ever larger share of the social wealth is concentrated in the hands of the big capitalists. Thus, the fortunes of 1 per cent of the wealthiest families in the USA are 1.5 times as great as the aggregate wealth of 80 per cent of the families at the base of the property pyramid. No wonder it is ever more difficult for the bulk of the population to make a living, while the bourgeoisie knows no limit to conspicuous consumption. Thus, the US press has written of billionaires who decorated their garden

with fruits made of gold to amuse their guests or smoked cigars wrapped up in $100 bills.

Present-day reality refutes the assertions of bourgeois economists about a narrowing gap between the incomes of different social strata under capitalism.

The successes of the socialist countries and the growing influence of socialism on human hearts and minds undoubtedly induce the bourgeoisie to make some concessions to the working class. In the course of a persevering class struggle, the workers in the capitalist countries sometimes bring about improvements in working conditions, remuneration and various other aspects of their life. But in spite of their intensifying struggle for their rights and some successes in that struggle, the condition of the working class under capitalism on the whole continues to worsen in relative terms. That worsening differs in pace from one period to another, and has its peculiarities in different countries with different conditions of historical development.

Absolute Worsening of the Working Class' Condition

In the course of capitalist development, the condition of the working class can also worsen in *absolute* terms. This is manifested in a worsening of the overall conditions of life and work, and primarily in a decline in real wages. Low wages make it impossible for the workers to meet their vital needs.

Growth of unemployment is the main factor in the absolute worsening of the working class' condition. As the number of unemployed grows, their condition tends to worsen. Unemployment benefits are reduced and paid out over shorter periods. Many do not get such benefits at all. In the 1970s and early 1980s, only four unemployed in ten received unemployment benefits in the USA, with a similar picture in the FRG, France, Britain and other countries. People who are out of a job for a long time lose their professional skills, so that even when they manage to find a job their wages, as a rule, are lower than before. They usually agree to any work on any terms.

Unemployment is a powerful instrument enabling the bourgeoisie to step up its offensive against the working people's living standards and social rights. For fear of losing their jobs, people are compelled to work too hard, rapidly wearing themselves out. Unemployment also exerts a powerful moral and psychological pressure both on those who have a job and especially on those who do not.

Unemployment and uncertainty in the future do much harm to the spiritual aspect of human life. As unemployment swells, there is more gangsterism, crime, drug abuse, and other forms of moral degradation.

Unemployment means material privations: malnutrition, eviction, loss of things bought by instalments, and poverty. Just as the indigent strata grow with the growth of capitalist wealth, so the number of empty flats increases with the number of homeless. In Italy, for instance, two million flats are untenanted, while thousands of people have nowhere to live. In the FRG, the number of empty flats is around one million, while more than 100,000 people are homeless.

Worsening labour conditions are another important factor in the absolute worsening of the condition of the working class. This means more intensive work, inadequate health and safety standards, more occupational injuries and disease.

More intensive labour and greater exploitation of the working class lead to more heart disease and to nervous and mental disorders, while medical assistance and medicines are ever more expensive.

Medical services are beyond the reach of growing numbers of Americans. A long and serious illness can ruin an average family; one-half of all American families cannot pay for medical assistance. Hence a vicious circle: low incomes and exhausting labour lead to a high incidence of disease and do not allow the family to resort to medical services, while disease undermines incomes. Capitalist reality shows that wealth and poverty have one feature in common: both are hereditary.

So, capitalist accumulation and the ever greater concentration of social wealth in the hands of the exploiter classes with the development of capitalism inevitably entail a worsening of the condition of the working class and all the other working people, to widespread economic hardship.

Here is how Marx formulated the essence of the capitalist law of accumulation: "The greater the social wealth, the functioning capital, the extent and energy of its growth, and, therefore, also the absolute mass of the proletariat and the productiveness of its labour, the greater is the industrial reserve army... But the greater this reserve army in proportion to the active labour-army, the greater is the mass of a consolidated surplus-population, whose misery is in inverse ratio to its torment of labour. The more extensive, finally, the lazarus-layers of the working class, and the industrial reserve army, the greater is

official pauperism. *This is the absolute general law of capitalist accumulation.*"[1]

The Expropriators Expropriated

Capitalism is a deeply antagonistic society. With the development of capitalist production, the power of capital is enhanced and man's exploitation by man is intensified. Capitalism arose with the ruin and expropriation of small commodity producers. That process was brilliantly described by Marx in Chapter 24, Volume I of *Capital*, "The Accumulation of Capital", which we recommend you to read.

The private property of small commodity producers, based on personal labour, gave way to private capitalist property, based on the exploitation of other people's labour.

Concentration and centralisation of capital lead to the establishment of big enterprises, to a replacement of small-scale by large-scale production, and the ruin of small commodity producers. With the development of large-scale machine production, the social division of labour is deepened and links between enterprises are extended. Many workers are concentrated at big enterprises, for the means of labour at capitalist enterprises can only be used collectively. The process of capitalist production takes on an ever more social character. At the same time, the contradiction between the social character of production and the private capitalist form of the appropriation of the results of joint labour tends to deepen. That is the *basic economic contradiction of capitalism.* It is primarily manifested in the contradiction between the two main classes under capitalism: the working class and the capitalists.

The socialisation of the production process on the basis of capital accumulation creates objective and subjective prerequisites for replacing capitalism with communism, a more progressive system, whose first phase is socialism. As it develops the productive forces on a gigantic scale, capitalism concentrates these in the hands of a few big capitalists, who appropriate the results of the collective labour of hundreds and thousands of workers. Hence the objective need to replace private capitalist property in the means of production with social property and distribution of material values in the interests of their producers.

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[1] Karl Marx, *Capital*, Vol. I, p. 603.

With the development of the capitalist mode of production, the working people's exploitation is increased and, at the same time, they intensify their struggle against poverty and oppression. The interests of the ever more organised and united working class coincide with the vital interests of all the other working people and with those of social progress. That is why its historical role is to be the grave-digger of capitalism and the architect of a new, communist society. Marx wrote: "Along with the constantly diminishing number of the magnates of capital ... grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working-class, a class always increasing in numbers, and disciplined, united, organised by the very mechanism of the process of capitalist production itself... Centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated."[1]

QUESTIONS FOR DISCUSSION

1. What does accumulation of capital mean?
2. Why does accumulation of capital entail a growth of its organic composition?
3. What are the causes of unemployment under capitalism?
4. What is the relative and absolute worsening of the working class' condition?
5. What are the factors operating against the worsening of the working class' condition?

[1] Karl Marx, *Capital*, Vol. I, p. 715.

Chapter Five

IMPERIALISM, OR MONOPOLY POWER

> The deepest economic foundation of imperialism is monopoly.
>
> *Lenin*

Imperialism is the system that engendered colonialism, the first and second world wars, fascism, and genocide; it is responsible for the economic hardships of millions of people, and carries on a struggle against peace and socialism, democracy and progress.

In order to carry on an effective struggle for peace and social progress, one should know not only the political face of imperialism, but also its socio-economic essence, the laws of its emergence, development and collapse.

What is imperialism? What do capitalism and imperialism have in common and are there any distinctions between them? Why is it an adversary of the peoples and what are the principles of the strategy and tactics of the revolutionary and democratic forces in their struggle against imperialism? Scientific answers to these and other pivotal questions of our epoch are given by Lenin's theory of imperialism, which is to be examined in the next four chapters. In this chapter, we shall concentrate on Lenin's theory of imperialism as a continuation and development of the economic doctrine of Marx and Engels; on monopoly power as the basic feature of imperialism; international monopolies and their drive for world domination; and imperialism as moribund capitalism, the eve of the socialist revolution.

1. LENIN'S THEORY OF IMPERIALISM AS A CONTINUATION AND DEVELOPMENT OF THE ECONOMIC DOCTRINE OF MARX AND ENGELS

Marx and Engels showed that the downfall of capitalism was historically inevitable, and that a socialist revolution was pos-

sible and necessary. After them, the capitalist world was the scene of profound qualitative changes, which radically altered the ideas about the conditions for a triumphant proletarian revolution. Lenin's theory of imperialism was a direct continuation of the Marxist doctrine of capitalism and developed it in the new historical conditions.

In the final third of the 19th century, the development of the productive forces and concentration of production led to the emergence of big capitalist enterprises and the formation of monopolies, which came to play the crucial role in economic life. Under the impact of the new economic conditions, the capitalist relations of production changed as well. Monopoly rule in the economy altered the forms and methods of competition, intensifying it still further. Competition among the monopolies for maximum profit deepened the contradictions of capitalism to an even greater extent.

At the turn into the 20th century, world capitalism entered its final, imperialist stage. A revolutionary transition from capitalism to socialism became an imperative of social development, and world history reached a critical stage. At that stage, widespread opportunism in the working-class movement of most countries sought to adjust that movement's policy and ideology to the interests of the bourgeoisie.

The situation was exacerbated by the first world war. The leaders of the Second International justified the imperialist war, presenting it as a "just war of liberation". They came out in defence of the imperialist interests of the bourgeoisie and betrayed the interests of the working class, undermining the unity of the international working-class movement.

To expose the opportunists, show the anti-popular, imperialist character of the world war, its goals and causes, and elaborate the strategy and tactics of the revolutionary working-class struggle against the exploitive system, it was necessary not only to uphold the theoretical and political conclusions of Marx and Engels, but also to make a scientific analysis of imperialism. And that called for a comprehension of the new phenomena and processes in the economy and politics of the capitalist states in the late 19th and early 20th centuries. That formidable task was brilliantly performed by Lenin. He not only upheld the revolutionary essence of Marxism in the struggle against bourgeois theorists and revisionists who tried to distort the doctrine of Marx and Engels, but went on to develop it in the new historical context. He elaborated a new theory of socialist revolution, without which there would have been no Great October

Socialist Revolution in Russia or socialist revolutions in other countries.

Since Lenin's lifetime, there have been essential changes in the economy and politics of imperialism. The world has changed beyond recognition. But Lenin's theory of imperialism remains an effective instrument, helping to bring out the essence of the latest phenomena in the economy and politics of the capitalist countries, and enabling every contingent of the world revolutionary movement to work out a correct strategy and tactics in their struggle against imperialism. It also helps to expose imperialist apologists, who seek to distort the true meaning of the new phenomena.

2. MONOPOLY POWER AS A BASIC FEATURE OF IMPERIALISM

What is Monopoly?

Imperialism and its socio-economic essence can never be understood unless one understands the essence of monopoly. In order to have an idea about monopolies, one should at least answer the following questions. What is the scale of the monopolies' economic might and political influence in the capitalist world? What is the reason for the furious attacks of the monopoly bourgeoisie against the working people's rights and living standards in its own country and against other peoples striving for independent economic and political development? Why does it waste immense resources on the arms race, putting mankind on the brink of a nuclear disaster? To find correct answers to these questions, let us turn to Lenin's works, primarily his *Imperialism, the Highest Stage of Capitalism.*

In Chapter One, Lenin shows how the development of the productive forces accelerated the *concentration of production and capital* and intensified *competition* between enterprises, and how these two processes led to the emergence of a handful of big enterprises in each industry, which came to dominate production and marketing. Lenin wrote: "Tens of thousands of huge enterprises are everything; millions of small ones are nothing."[1]

Consequently, *capitalist monopoly is a huge enterprise or*

[1] V.I. Lenin, "Imperialism, the Highest Stage of Capitalism," *Collected Works*, Vol. 22, p. 196.

association of enterprises which has concentrated a sizeable share of production in its own hands and is thus able to establish monopoly-high prices and extract monopoly profit.

The main forms of monopoly are cartels, syndicates, trusts and concerns.

The *cartel* is an association of enterprises whose participants retain their production and commercial independence while signing an agreement on uniform monopoly-high prices, marketing outlets, exchange of patents for new technology, etc. Cartels were particularly widespread in Germany.

The *syndicate* is an association of enterprises which, as a rule, turn out similar products. Its participants retain their production independence, while their goods are marketed and raw materials purchased through the syndicate. Thus, in pre-revolutionary Russia, there were metal, coal and sugar syndicates.

The *trust* is an association of enterprises whose participants lose their production, commercial and juridical independence altogether. Each of the owners of the enterprises involved receives a block of shares in accordance with the size of the invested capital, which entitles him to take part in managing the trust and to a corresponding share of the profit.

The most widespread form of monopoly today is the multi-sectoral *concern*, which includes enterprises in different branches of the economy. The enterprises within the concern retain their production, commercial and juridical independence, but are under the financial control of the holding company. Most of the largest present-day monopolies are concerns.

The Most Powerful

Twentieth-century history has confirmed Lenin's conclusions that monopoly power is the economic basis of imperialism. Monopolies now are truly gigantic. In 1907, the enterprises of General Electric, which Lenin described as one of the two electrical powers of the world, employed 28,000 persons, and in the mid-1980s the company employed over 400,000. General Motors, a leading auto-manufacturing monopoly, has a work force of 700,000-800,000.

In the early 20th century, there was only one monopoly in the world with assets of more than $1 billion; in the early 1950s there were four such monopolies; in 1963 the figure was up to 57, and in the mid-1980s, up to over 630.

Monopolisation of production has been steadily developing both in depth and breadth. Small and medium-sized enterprises are being ruined and taken over by the monopolies. Thus, in the early 20th century, there were 1,600 companies in the US automobile industry, and towards the early 1980s there were only four left. Three of these—General Motors, Ford and Chrysler—now account for 97.8 per cent of all automobile production in the country.

The oil industry of the capitalist world is dominated by seven big monopolies, with two of these giants—the US Exxon and the Anglo-Dutch Royal Dutch-Shell—accounting for over one-quarter of oil extraction and one-third of oil refining in the capitalist countries.

Monopolies now hold the key positions not only in industry and banking, but also in agriculture, construction, transport, the communications, trade and the services. Thus, three tobacco trusts in the USA (Reynolds Industries, Philip Morris, and American Brands) and three in Britain (B.A.T. Industries, Imperial Group, and Rothmans International) control virtually the whole of cigarette production in these countries. The food industry of the capitalist world is dominated by such giants as Unilever (Anglo-Dutch), Swift (American), Nestlé (Swiss), and others. Unilever, for instance, has over 200 enterprises in many countries, coconut, banana, coffee, rubber and other plantations, its own river and marine fleet, fishing and whaling facilities. In 1983, its annual turnover was $20.3 billion.

The monopolies play a leading role not only in the economy of the capitalist countries, but also in other spheres of social life, such as the press, radio and television. The Springer concern, for instance, controls 40 per cent of all central daily newspapers in the FRG, 100 per cent of all central Sunday newspapers, 85 per cent of the country's youth magazines, and over 70 per cent of all local newspapers published in Hamburg and West Berlin.

Over the past few decades, the forms of monopolies and the character of their activity have changed significantly. These changes are largely due to the ever greater concentration of production and capital under accelerating scientific and technical progress and economic restructuring, to more intensive competition, both domestic and global.

Highly competitive *multisectoral monopolies* are now a widespread form. In 1968, there was no longer a single corporation in the USA among the top 200 manufacturing corporations which would operate within a single industry. In 1970,

94 of the 100 leading monopolies in Britain, 78 in the FRG, 85 in France, and 90 in Italy were multisectoral monopolies.

A major specific feature of the present stage in the monopolisation of production is that with the objective internationalisation of economic life national monopolies develop into transnationals. *Transnational monopolies* are also formed by monopolies of different countries setting up joint ventures. They monopolise whole branches of production both in individual countries and on the scale of the world capitalist economy as a whole.

Monopoly Profit

The main aim of the monopolies is to obtain monopoly-high profit. Lenin wrote: "Monopoly yields *superprofits*, i.e., a surplus of profits over and above the capitalist profits that are normal and customary all over the world."[1]

That superprofit is formed as a result of monopoly power in production and marketing and is concentrated in the hands of the monopolists.

The monopolies use more sophisticated machinery and technology, higher-skilled labour, the best engineering personnel, and progressive organisation and management methods, so that their production costs are lower. Thus, IBM, the biggest US computer-manufacturing monopoly, spent roughly $4 billion in five years to develop a new range of computers (IBM-360). Clearly, such outlays are only effective under mass production and can only be made by billionaire monopolies. No wonder the top 100 manufacturing corporations in the USA now account for 43 per cent of the total output and 80 per cent of the outlays on research and development.

Monopoly domination in production, marketing and R&D, and monopoly possession of the main sources of raw materials ensure the best terms of competition for monopoly capital. These enable monopoly enterprises to sell their own goods at monopoly-high prices and to buy goods at monopoly-low prices. Millions of small and medium-size enterprises are obliged to yield to the diktat of the powerful monopolies.

In contrast to the price of production, at which the bulk of goods used to be sold in the period of free competition, *mono-*

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[1] V.I. Lenin, "Imperialism and the Split in Socialism", *Collected Works*, Vol. 23, Progress Publishers, Moscow, 1977, p. 114.

poly-high prices are equal to the costs of production plus average profit plus monopoly superprofit.

Monopoly rule in every sphere of economic life alters the operation of the basic economic law. At the highest stage of capitalist development, the law of surplus-value as the basic economic law of capitalism assumes a new form; that of monopoly-high profit. Such profit includes the surplus-value created by wage workers at monopoly enterprises and a part of the surplus-value created at non-monopolised enterprises which supply goods for the monopolies and purchase their products, a part of the value of the necessary product of the country's working people, and a part of the national income of other (mostly economically less developed) countries, appropriated by the monopolies through the mechanism of non-equivalent exchange and other methods of exploitation.

So, the monopoly bourgeoisie exploits not only the working class and other working strata in its own country, but also the population of other countries, economically dependent countries above all.

Finance Capital and the Financial Oligarchy

To understand the essence of finance capital, one would do well to read the second and third chapters of Lenin's *Imperialism, the Highest Stage of Capitalism.*

Lenin shows how the formation of monopolies in industry led to a concentration of banking capital and formation of banking monopolies. As a result, the banks came to play a new role in economic life and in their relations with industrial monopolies. Lenin notes how "the banks grow from modest middlemen into powerful monopolies having at their command almost the whole of the money capital of all the capitalists and small businessmen and also the larger part of the means of production and sources of raw materials in any one country and in a number of countries".[1]

Banking monopolies do not confine themselves to incomes in the form of loan interest, buying up shares of industrial enterprises and becoming their co-owners. Industrial monopolies, for their part, buy the shares of banks. Stronger ties with the big banks and the possibility of borrowing the necessary funds

[1] V.I. Lenin, "Imperialism, the Highest Stage of Capitalism, *Collected Works*, Vol. 22, p. 210.

help to increase the resources of industrial enterprises. On that basis, industrial and banking monopoly capitals intertwine and coalesce into a qualitatively new type of capital: *finance capital.*

How does finance capital differ from industrial and banking capital?

In the past, industrial and banking capital existed separately and were represented by different groups of capitalists: industrialists and bankers. The situation has now changed. Although functional distinctions between capital invested in production and that invested in banks remain (industrial capital operates in the sphere of material production, and banking capital, in the credit sphere), they are no longer separated. Under imperialism, both industrial and banking capital become components of finance capital. The latter penetrates and takes over every sphere of economic activity: industry, credit, agriculture, transport, the communications, trade and the services.

Finance capital is concentrated in the hands of the *financial oligarchy*, the elite of the monopoly bourgeoisie. In the leading capitalist countries, it includes a handful of the wealthiest families, like the Rockefellers, the Morgans, the Du Ponts, the Gianninis, the Fords, the Mellons and the Hunts in the USA, the Rothschilds, the Lazards, the Barings and the Schroeders in Britain, or the Flicks, the Hoeschs and the Haniels in the FRG.

In examining the mechanism of the financial oligarchy's power, Lenin shows that it is based on a *system of shareholdings*. That is a multitier system under which a single company exercises financial control over a number of other companies through the acquisition of a *controlling interest (block of shares) of these companies*, i.e., the number of shares which entitles it to the decisive vote at shareholders' meetings. Nominally, the controlling interest is 51 per cent of shares. But each joint-stock company has hundreds or even thousands of shareholders. As a rule, most of the smaller shareholders take no part in running the enterprises, so that even 15-20 per cent of shares or less is often sufficient to control the company. Thus, where the controlling interest is 20 per cent, a capital of $10 million will make it possible to control five first-generation affiliates with a capital of $50 million, 25 second-generation affiliates ($250 million), and 125 third-generation affiliates ($1,250 million), or a total of 155 companies with a capital of $1,550 million.

This may sound unlikely, but actual capitalist practice is even more impressive.

The founders (promoters) of joint-stock companies usually issue different kinds of stock: common stock (ordinary shares), which entitle their owner to take part in the general shareholders' meeting and to receive dividends depending on the company's profits, and preferred stocks (preference shares), which entitle their owner to receive dividents in the form of a fixed percentage. Finance capital uses that division in its own interests, to increase its power and wealth.

In setting up the Chatham Phoenix Applied Corporation (an investment company), the US Chatham Phoenix Bank divided its share capital into voting and non-voting stocks as follows:

1,900,000 non-voting stocks at	$27 each	$51,300,000
100,000 voting stocks at	$25 each	$2,500,000
	Total	$53,800,000

If the bank were to buy all the voting stocks for $2.5 million, it would get control of $53.8 million. In actual fact, it did not have to spend even $2.5 million. For organising the company, the bank got a commision in the form of $3.8 billion worth of non-voting stocks. It sold these stocks and bought up all the voting stocks, so acquiring full control of the company's $53.8 million without spending a cent of its own, plus a profit of $1.3 million.

A major instrument of enrichment in the hands of the financial oligarchy is the activity of the banks to set up joint-stock companies, which yield considerable *promotional profit*.

The financial oligarchy also *speculates in land*, especially around rapidly growing cities. Its power is enhanced by the bourgeois state, which redistributes the national income in favour of monopoly capital through tax benefits, immense subsidies and government contracts.

The organisational form of the financial oligarchy's power is the *financial monopoly group*, which is an aggregation of industrial, banking, insurance, transport, commercial and other companies under the control of one or several allied magnates of capital. In the early 1980s, there were about 90 financial monopoly groups in the capitalist world, including 26 groups in the USA, 20 in Britain, and 10 in France, the FRG and Japan each. The leading financial monopoly groups in the capitalist world are the Morgan group, which controlled over $250 billion worth of assets in the mid-1970s, the Rockefeller group, with over $163 billion, and the California group, with over $170 billion.

3. INTERNATIONAL MONOPOLIES AND THEIR STRUGGLE FOR GLOBAL DOMINATION

Monopoly power is not confined to one country or another. Thus, the world's biggest industrial monopoly Exxon (up to 1972, it was known as Standard Oil of New Jersey), which is part of the Rockefeller group, in the early 1980s had annual sales exceeding $100 billion, or much more than the gross national product of such countries as Austria, Belgium or Denmark.

Exxon specialises in the exploration, extraction, refining and transportation of oil and gas, mines coal and uranium, and produces petrochemicals. Through a network of affiliates, it extracts oil in more than 40 countries and refines it in 37 countries. It owns over 21,000 operational oil and gas wells, roughly 5 billion tons of workable oil reserves, 90 per cent of which lie outside the USA, and 2.6 billion cubic metres of natural gas reserves. Its pipelines exceed 60,000 kilometres and have a capacity of 400 million tons a year. The carrying capacity of the tankers it charters is 24.4 million tons. Its gasoline is sold in more than 100 countries. In 1984, Exxon's annual profit was $5,528 million.

Export of Capital and Economic Division of the World

The export of capital provides a basis for the power of international monopolies. Of course, capital used to be exported, though on a relatively small scale, in the days of premonopoly capitalism as well. But the bourgeoisie's main instrument of enrichment at the expense of the working people of other countries at that time was foreign trade. Today, the export of goods is less important than the export of capital, which is now the major instrument in expanding monopoly power. "Typical of the old capitalism, when free competition held undivided sway, was the export of *goods*. Typical of the latest stage of capitalism, when monopolies rule, is the export of *capital*."[1] Lenin showed that export of capital is an inevitable product of imperialism, one of its main economic hallmarks, and an effective method of expanding the power of the monopolies and increasing their profits.

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[1] V.I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 240.

The need for capital export was due to the formation of an "excess" of capital in the industrialised countries, where capitalism was "overripe" and where the rate of capital accumulation far exceeded the possibilities for its highly profitable investment. The domestic market was proving to be too narrow for monopoly expansion. As a result of the ever greater exploitation of the working class, the ruin of farmers, the growth of unemployment and the worsening condition of the bulk of the population, the domestic market tends to grow slower than the possibilities for expanding production.

Since the monopolies had no desire to lower the prices of their products and receive a low rate of profit, they exported their "excess" capital to other countries, primarily to the colonies and semi-colonies, which had low wage levels, rich sources of minerals, and fairly low land prices. That enabled the monopolies to reduce their production costs and derive high profits.

The monopolies used the export of capital to expand the export of their goods, to win new markets, and increase the exploitation of other peoples. To maximise their profits, they invested most of the exported capital in the mining industry and agriculture. Such one-sided, monocultural economic development of the dependent countries helped to turn them into agrarian and raw-material appendages of the imperialist states. Although the export served to develop their productive forces, it involved plunderous exploitation of their natural resources and labour-power, putting a brake on their economic and social progress.

After the Second World War, there was a fundamental change in the terms of capital export. That was primarily due to the formation of the world socialist economic system as a crucial factor of social progress, and then to the disintegration and eventual collapse of the colonial system of imperialism. But under the present growing rivalry between the leading imperialist powers, the importance of capital exports has only increased. Capital is being exported on a larger scale, and the structure and forms of its export have changed. Since the Second World War, overall direct private investments abroad by the developed capitalist countries have multiplied more than 20-fold, including a seven-fold increase from 1960 to 1979 (from $58 billion to $419 billion). In that period, US direct private investments increased six-fold, those of Western Europe—eight-fold, and those of Japan—100 times over. As a result, Japan's share in total investments abroad went up to 7.1

per cent, that of Western Europe—to 41.9 per cent, and that of the USA went down from 55 to 46 per cent.

Export of capital is now being used as an instrument in the struggle for spheres of economic and political influence not only in the economically dependent, but also in the developed capitalist countries. Before the Second World War, only one-third of the total exported capital went to the industrialised capitalist countries, and the remaining two-thirds went to the economically backward countries, whereas today two-thirds of the exported capital go to the industrialised countries. Capital export has been rechanneled as the sphere of imperialist domination has narrowed as a result of the disintegration of the colonial system and the newly free countries' struggle against neocolonialism. The process is promoted by the relatively more favourable political climate in the industrialised countries and the possibility of making high profits on capital invested in new and promising lines of production engendered by the technological revolution. The export of capital in the form of patents and licences acquires special importance.

The striving to retain the former colonial countries within the world capitalist economic system has induced the leading monopolies to alter the structure of their exports to the developing countries and channel more capital into the key branches of their economy. But even in the new historical conditions, the activity of foreign monopoly capital does not meet the national interests of the newly free countries or promote their socio-economic progress.

International Monopolies

The growing scale of capital export and the ever more ramified international ties of the biggest monopolies led to the emergence of *international monopolies*. There are two major types of international monopolies. First, monopolies which are national in origin and international in their activity, that is, transnational monopolies. And second, monopolies which are owned by the capital of two or more countries, that is, international associations of monopolies.

Before the Second World War, the most widespread organisational form of international monopolies was the cartel, whose participants signed an agreement on prices, a partition of markets, exchange of patents, and so on. Having analysed their activities, Lenin showed the *economic division of the world between associations of monopolies.*

International monopolies produce a significant share of the basic commodities in the capitalist world. The leading monopoly giants are locked in fierce competition for the largest and most lucrative markets, raw-material sources, and new industries engendered by scientific and technical progress, for a redivision of the existing spheres of influence. Over the past two decades, the scale of their activity has markedly increased.

The Territorial Division of the World

With the onset of imperialism and monopoly domination, the industrialised states showed a greater striving for colonial conquest. The colonial policy of imperialism led to a conquest of all the territories which had not belonged to any state. The peoples of Asia, Africa and Australia, and many American peoples were included in the sphere of exploitation by the leading imperialist powers. In the early 20th century, the latter completed the territorial division of the world.

Lenin pointed out, however, that once the territorial division of the world was completed, the struggle for its redivision did not subside but was further intensified.

The imperialist countries' conquest of vast territories and enslavement of their peoples were a major factor in expanding monopoly rule. At the same time, it was fraught with deep-rooted social contradictions, and the pent-up anger of the colonial peoples was sooner or later bound to explode the colonial system. The explosion was detonated by the Great October Socialist Revolution in Russia in 1917, and then the defeat of fascism in the Second World War by the powers of the anti-Hitler coalition. The decisive role in saving the world civilisation was played by the USSR.

Today, the colonial system of imperialism in its classical form has been dismantled, and only some of its vestiges remain, especially in the south of Africa. That is not to say, however, that imperialism is no longer bent on conquering foreign territories. Present-day imperialism, US imperialism above all, keeps trying to get control over various parts of the world in order to obtain profitable sources of raw materials and set up military bases. It seeks to retain its domination in the former colonies with the use of new, neocolonialist methods.

4. THE PLACE OF IMPERIALISM IN HISTORY

Lenin on Three Features of Imperialism

Lenin's theory of imperialism helped the international working-class movement to understand the modern historical epoch and the main tasks of the proletariat's revolutionary struggle against the exploitive system.

Lenin elaborated his theory of imperialism in resolute struggle against opportunism and revisionism in the international working-class movement, exposing those who urged the working class to give up its revolutionary struggle against capitalism and called for class collaboration with the bourgeoisie. He circumstantially criticised the view of imperialism advocated by Karl Kautsky, a leader of the Second International.

Kautsky said that imperialism was not a stage in the development of the capitalist economy, but a policy preferred by finance capital, i.e., the colonial policy of the leading industrial powers. He wrote that "imperialism is a product of highly developed industrial capitalism. It consists in the striving of every industrial capitalist nation to bring under its control or to annex all large areas of *agrarian* (Kautsky's italics) territory, irrespective of what nations inhabit it".[1]

Kautsky's basic mistake here was that he identified imperialism with the policy of colonial conquests, so obscuring the organic connection between the colonial policy of the industrialised countries and monopoly rule. He failed or refused to see that the intensification of their colonial policy was due to monopoly rule.

Kautsky's conception of imperialism was politically harmful because it gave the masses an illusion that imperialist policy could be overcome within the framework of present-day capitalism, so that there was no need for any revolutionary struggle against capitalism.

In contrast to Kautsky, Lenin formulated a clear-cut and all-round definition of imperialism: "Imperialism is a specific historical stage of capitalism. Its specific character is threefold: imperialism is (1) monopoly capitalism; (2) parasitic, or decaying capitalism; (3) moribund capitalism."[2]

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[1] Cited from V.I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 268.

[2] V.I. Lenin, "Imperialism and the Split in Socialism", *Collected Works*, Vol. 23, p. 105.

Monopoly power is the economic basis of imperialism. "The supplanting of free competition by monopoly is the fundamental economic feature, the *quintessence* of imperialism."[1] Monopoly power predetermines all the other specific features of imperialism, which single it out into a new stage of capitalism, its highest stage.

Lenin regarded *parasitism and decay* as a major specific feature of imperialism. The tendency to stagnation and decay engendered by capitalist monopoly primarily manifests itself in *slower technological progress.* The monopolies make high profits not only by reducing production costs on the basis of new means of labour, but also as a result of their domination on the market, which enables them to establish monopoly prices. Since they dominate the market and receive maximum profit over long periods of time, there are fewer incentives to technological progress. Thus, the biggest monopolies often buy up patents for inventions not in order to apply them, but to prevent their rivals from applying them.

At the same time, there is a tendency to develop the productive forces, for monopoly does not rule out competition altogether. Lenin emphasised: "It would be a mistake to believe that this tendency to decay precludes the rapid growth of capitalism. It does not. In the epoch of imperialism, certain branches of industry, certain strata of the bourgeoisie and certain countries betray, to a greater or lesser degree, now one and now another of these tendencies. On the whole, capitalism is growing far more rapidly than before..."[2] In other words, the tendency to decay and growth of the productive forces do not rule each other out. That is particularly important in assessing the development of present-day imperialism.

The parasitism and decay of capitalism are also evident in the growth of the rentier stratum, i.e., capitalists living exclusively off securities: stocks and bonds. The *growth of the rentier stratum* is a direct result of imperialism, the growing power of the monopolies and their monopoly-high profits.

The *export of capital* tends to make imperialism even more parasitic. The growing export of capital swells the stratum of capitalists who live off capital investments abroad, receiving fabulous incomes from the exploitation of the colonies and

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[1] Ibid.

[2] V.I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 300.

non-equivalent exchange with economically backward countries.

The parasitic character of capitalism is also evident from the fact that imperialism creates an opportunity for *bribing the top section of the working class* and fostering a workers' aristocracy as the social mainstay of opportunism in the working-class movement. Lenin wrote of opportunism: "Unless the economic roots of this phenomenon are understood and its political and social significance is appreciated, not a step can be taken toward the solution of the practical problems of the communist movement and of the impending social revolution."[1] Lenin bared the economic roots of opportunism. In chapters eight and ten of his brilliant book, he showed that the top section of the working class is being bribed at the expense of a part of the monopoly-high profits of the leading imperialist states.

Militarisation of the economy and other spheres of social life is the most dangerous form of the parasitism and decay of capitalism.

Imperialism is moribund capitalism, the eve of the socialist revolution. That is the main conclusion from Lenin's theory of imperialism.

Imperialism is moribund capitalism because it carries the contradictions of capitalism to an extreme and paves the way for a socialist revolution. Naturally, this does not mean that imperialism will leave the historical stage of its own accord. The ruling circles of the outgoing system are doing all they can to retain their power.

Lenin's Theory of Socialist Revolution

Lenin's greatest service to mankind is that he answered, on the basis of a profound and all-round study of imperialism, the most complicated question of our day: *how* will mankind's further progress and its transition to socialism be effected?

Having analysed the operation of the law of the uneven economic and political development of capitalism at the imperialist stage, Lenin concluded that socialism would first be victorious in one or several countries, whereas the rest would for some time remain bourgeois or pre-bourgeois.[2]

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[1] V.I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 194.

[2] See V.I. Lenin, "The Military Programme of the Proletarian Revolution", *Collected Works*, Vol. 23, p. 79.

That conclusion, which showed the ways of the development of the socialist revolution in the imperialist epoch, was of immense importance for the future of the working-class movement in Russia and the world. The CPSU Central Committee's Theses on the Centenary of Lenin's birth said: "Lenin's historic achievement is that he created a scientific theory of imperialism, examined its nature, contradictions and uniformities... Having discovered the law of capitalism's uneven economic and political development at its imperialist stage, Lenin drew the conclusion that different countries would reach socialism at different points in time and that the imperialist front could be broken not necessarily in the most developed country. That conclusion was a new word in Marxist theory. It radically changed the ideas about the conditions for a victory of the new system and opened up a clear perspective of struggle before the proletariat of Russia and the world."

Lenin's theory of imperialism, being developed in the documents of the CPSU and of the fraternal communist and workers' parties, remains a theoretical and ideological weapon in the struggle against imperialism.

QUESTIONS FOR DISCUSSION

1. What are capitalist monopolies? What are the main causes of their formation?
2. What are the main forms of monopoly?
3. What are the main sources of monopoly profit? What are the main causes and socio-economic consequences of the export of capital?
4. What is the significance of Lenin's theory of imperialism?

Chapter Six

THE GENERAL CRISIS OF CAPITALISM AND ITS DEEPENING AT THE PRESENT STAGE

> The young, forward-looking world of socialism is opposed by the exploiter world of capitalism which is still strong and dangerous, but which has already passed its peak. *The general crisis of capitalism is deepening.* The sphere of its domination is shrinking inevitably, its historical doom becoming ever more obvious.
>
> *From the CPSU Programme*

In Chapter Five, we examined the economic features of imperialism and its historical place. Lenin showed that the disintegration of capitalism and assertion of socialism will take a definite historical period, the period of the general crisis of capitalism.

Mankind's epoch-making movement to socialism, started by the October Revolution in Russia, is not spontaneous, but involves a persevering struggle between the new and the old, between the progressive and the reactionary, between socialism and capitalism.

Economic and social progress in the socialist countries is now a crucial factor in the world revolutionary process, in the efforts to improve the international situation and solve the most burning problem of today: that of preventing a world thermonuclear war.

Lenin's doctrine of the general crisis of capitalism is of immense practical, as well as theoretical importance. A deep understanding of the essence and stages of the general crisis of capitalism helps to elaborate a correct strategy and tactics for the working-class and national liberation movement and for other mass democratic movements, and to ensure unity of action by all the streams of the world revolutionary process.

In this chapter, we shall examine the essence, causes, main features and stages of the general crisis of capitalism; the deepening contradictions of capitalism at the present stage;

the deepening contradictions between the imperialist and the developing countries; the strengthening positions of socialism and the deepening general crisis of capitalism.

1. THE ESSENCE, CAUSES, AND MAIN FEATURES OF THE GENERAL CRISIS OF CAPITALISM

The Essence of the General Crisis of Capitalism

Having discovered the law of the uneven economic and political development of capitalism in the imperialist epoch, Lenin realised that a socialist revolution could not win out simultaneously in all countries. He wrote in 1915: "Uneven economic and political development is an absolute law of capitalism. Hence, the victory of socialism is possible first in several or even in one capitalist country alone."[1]

The general crisis of capitalism should not be confused with the cyclical economic crises that rock the capitalist economy from time to time. The general crisis affects every sphere of social life: the economy, politics, ideology, culture and morality, i.e., the superstructure as well as the basis.

Economic crises are reversible and recurrent. The crisis is followed by a depression, which gives way to an economic recovery and a boom, and that is followed by yet another economic crisis. As for the general crisis of capitalism, it is an irreversible phenomenon. Capitalism cannot leave that crisis behind. Its duration can differ depending on the strength of the revolutionary process and the bourgeoisie's ability to adapt to the new conditions, but it will only end with the collapse of capitalism.

At the same time, the general crisis of capitalism should not be identified with the present epoch, for the concept "general epoch" is much wider. The general crisis of capitalism is only one—and not the most important one—feature of the present epoch. Its crucial feature is the socialist transformation of the world, the development of the world socialist system.

So, the general crisis of capitalism is not the whole content of the present epoch. It is a terminal disease of capitalism, and not of the whole of mankind, as some bourgeois ideologists have been trying to prove. The laws that directly reflect the process

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[1] V.I. Lenin, "On the Slogan for a United States of Europe", *Collected Works*, Vol. 21, 1978, p. 342.

of mankind's transition to socialism and communism operate beyond the framework of the capitalist formation and so do not constitute the content of the general crisis of capitalism.

The Main Features of the General Crisis of Capitalism

The essence of the general crisis of capitalism is manifested in its features. Its main features are: first, the split of the world into two opposite social systems, with ever new countries falling away from capitalism and a weakening of its positions in the contest with socialism; second, the crisis, disintegration and collapse of the colonial system of imperialism and the weakening positions of imperialism in the struggle against the national liberation movement; third, the deepening economic and social contradictions of capitalism; and fourth, the crisis of bourgeois politics and ideology.

The deepening of the capitalist system's economic and social contradictions is manifested in different forms. Thus, there are economic and social contradictions between the bourgeoisie and the working class within the country and in the international arena, between the monopolies and nonmonopolised enterprises, between monopolies at home and abroad, between the capitalist countries, between the centres of imperialist rivalry, etc. The USA, Western Europe and Japan are the three main centres of present-day imperialism, and their mutual relations are full of overt and covert contradictions. The deepening contradictions weaken the capitalist system and are the motive force of the revolutionary process, the force that exacerbates the general crisis.

A key feature of the general crisis of capitalism is the crisis and disintegration of the colonial system of imperialism, and the weakening positions of imperialism in the struggle against the national liberation movement. One of the mainstays of imperialist rule is falling down. The former colonial countries, once the backyard of imperialism, are becoming an anti-imperialist force which undermines imperialism. Their struggle for political and economic independence deepens the general crisis of capitalism.

The general crisis also implies a crisis of bourgeois politics and ideology, ever greater socio-political instability caused by the economic and social contradictions.

But the main feature of the general crisis of capitalism is the

split of the world into two opposite socio-economic systems, with ever new countries falling away from capitalism and its weakening positions in the contest with socialism.

The collapse of capitalism is conditioned by the development of its internal laws and contradictions. So why then is the split of the world into two systems the main feature of the general crisis of capitalism?

That is due to the very essence of that crisis. After all, an aggravation of economic, social and political contradictions does not as yet amount to a collapse, to an elimination of capitalist rule, merely paving the way for such an elimination. The processes that serve to weaken and undermine the power of capitalism culminate in a triumphant socialist revolution, which is the form and the final result of the resolution of capitalism's antagonistic contradictions.

All these features of the general crisis of capitalism are closely interconnected. Moreover, the development of some of these tends to deepen the others. Thus, the sharpening of internal social and economic contradictions at a definite stage leads to a socialist revolution, with new countries breaking away from the capitalist system. The collapse of the colonial system of imperialism also undermines one of the mainstays of imperialist domination.

At a definite stage, the national liberation movement—an anti-imperialist movement—develops an anti-capitalist edge as well. A number of developing countries have taken the road of socialist orientation. Consequently, the final outcome of the deepening general crisis is a triumphant socialist revolution in one country or another. This revolution resolves all the antagonistic contradictions of the capitalist mode of production, and is a powerful factor accelerating the development of the general crisis of capitalism in the rest of the capitalist world.

The Causes of the General Crisis of Capitalism

In order to understand the essence of the general crisis of capitalism, one should examine the causes of its emergence and deepening. Since its main feature is the split of the world into two opposite systems, the break-away of ever new countries from the capitalist system, and the weakening positions of capitalism in its contest with socialism, one could get the impression that the main cause of that crisis is socialism. But that is not so.

There is no doubt that the strengthening positions of socialism

help to deepen the general crisis of capitalism. But whatever their impact, one should not forget that the crucial role in the development of the general crisis of capitalism, as of any other social phenomenon, belongs to its internal contradictions.

"...The historical development of the antagonisms, immanent in a given form of production, is the only way in which that form of production can be dissolved and a new form established."[1]

The emergence and development of the general crisis of capitalism are rooted in the internal contradictions of capitalism, in the basic economic law of that mode of production.

"...The inevitability of the transformation of capitalist society into socialist society," Lenin writes, Marx derived "wholly and exclusively from the economic law of the development of contemporary society."[2]

In full accord with these fundamental propositions of Marxist-Leninist theory, the 27th Congress of the CPSU emphasised that "the problems and crises experienced by the capitalist world arise within its own system and are a natural result of the internal antagonistic contradictions of the old society".[3]

The general crisis of capitalism stems from the basic contradiction of capitalism: that between the social character of production and the private capitalist form of appropriation, carried to an extreme by monopoly rule.

The general crisis of capitalism was prepared by the whole course of capitalist development. The transition from free-competition capitalism to imperialism, to the rule of the monopolies and finance capital, vastly increased the power of capital over labour, but also the working-class resistance to the capitalists. Export of capital and the economic division of the world expanded to a global extent the framework of capitalist exploitation, and so also the framework of monopoly rivalry and anti-imperialist struggle, the framework of the contradictions between labour and capital. The completion of the territorial division of the world strengthened the imperialist powers and intensified the inter-imperialist struggle, tightening the ring of colonial oppression, which was sooner or later bound to break and put an end to colonial slavery.

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[1] Karl Marx, *Capital*, Vol. I, p. 458.

[2] V.I. Lenin, "Karl Marx", *Collected Works*, Vol. 21, 1978, p. 71.

[3] Mikhail Gorbachev, *Political Report of the CPSU Central Committee to the 27th Party Congress*, Novosti Press Agency Publishing House, Moscow, 1986, p. 16.

The First World War of 1914-1918 was something of a last straw added to the burden of imperialist contradictions. Engendered by these contradictions, it worsened the working people's condition and increased their sufferings to such an extent as to necessitate a socialist revolution.

In the economic field, tighter monopoly rule inevitably leads to greater socialisation of production, helping the material prerequisites for socialism to mature. As they deepen the basic contradiction of capitalism and make development ever more disproportionate, the monopolies help to increase the destructive power of economic crisis, to undermine the capitalist organisation of production and the prestige of the monopoly bourgeoisie as the economic leader of the capitalist society. They erode the mechanism of exchange and cause uncontrolled inflation, so undermining credit relations and destabilising the capitalist economic mechanism.

In the socio-political field, greater monopoly oppression inevitably aggravates the social and political crises that erode the very foundations of capitalism.

With the development of the general crisis of capitalism, these contradictions are deepened and supplemented with new ones, both internal (relating to the evolution of monopoly capitalism into state-monopoly capitalism) and external (relating to the contest between capitalism and socialism).

The emergence of socialism is a key feature of the general crisis of capitalism. It exerts a powerful feedback effect on the development of the capitalist system's contradictions and the deepening of its general crisis.

2. THE STAGES OF THE GENERAL CRISIS OF CAPITALISM

The general crisis of capitalism develops unevenly, now accelerating, now slowing down. On the whole, however, it develops along an ascendant line. It has already gone through two stages and is now in its third stage. Each stage of the general crisis is marked by qualitative changes in the development of its main features.

The First Stage of the General Crisis of Capitalism

The first stage of the general crisis was prepared by the whole course of development under imperialism; it was brought on

by the First World War and started with the Great October Socialist Revolution. It lasted until the mid-1940s.

"*The Great October Socialist Revolution*," says the Programme of the CPSU, "*became a landmark in world history, determined the general direction and main trends of world development, and initiated the irreversible process of the replacement of capitalism by the new, communist socio-economic formation.*"[1]

The October Revolution brought about a radical change in the development of the whole of mankind. It ushered in a new epoch, marked a historic turning-point in the life of the peoples of Russia, and gave all oppressed and struggling peoples a glimpse of their future victory. Imperialism was no longer a system which embraced the whole world.

In 1918, under the immediate impact of the October Revolution and Russia's withdrawal from the imperialist war, revolutions broke out in Germany and Austria-Hungary, putting an end to their semi-feudal monarchies. In 1919, Soviet power was established in Hungary, Slovakia and Bavaria; in 1923, workers' governments were formed in Saxony and Thuringia, and Bulgaria was the scene of an armed uprising. A wave of strikes rolled across Japan (1918) and the USA (1919), and in 1920 there was a general strike in Italy. However, the balance of forces in the world was such as to enable the bourgeoisie, with the betrayal of the right-wing Social Democratic leaders, to suppress the revolution in these countries.

The October Revolution gave a powerful impulse to the national liberation movement, setting off the crisis of the colonial system of imperialism.

The national liberation struggle spread in India, Indonesia, China, Morocco, Iran, Syria and Korea. Turkey and Afghanistan won political independence. A triumphant revolution in Mongolia led to the establishment in 1924 of the Mongolian People's Republic.

But the national liberation struggle in a number of countries was put down by the imperialist powers. The world bourgeoisie throttled proletarian and national liberation revolutions, but it could not eliminate the deep-rooted contradictions of capitalism which undermine the foundations of its power.

At the first stage of the general crisis of capitalism, the world capitalist economy was rocked by three grave economic crises: in 1920-1921, 1929-1933, and 1937-1938. The worst economic crisis was that of 1929-1933, which broke out in the USA and then spread to other capitalist countries.

[1] *The Programme of the Communist Party of the Soviet Union*, Novosti Press Agency Publishing House, Moscow, 1986, p. 8.

The course of events in Germany, which became the centre of political battles between the proletariat and the bourgeoisie, was particularly dangerous for capitalism. In August 1932, Germany's industrial production was halved as compared with 1928, and the army of unemployed swelled to 5.7 million. In the early 1930s, Germany's working class, led by the capitalist world's strongest communist party, had a real possibility of winning political power. Its membership increased from 130,000 in 1928 to 330,000 in 1932, and the number of electors who voted for it in the elections to the Reichstag, went up from 3.2 million to 6 million. That is why Germany's financial oligarchy, backed up by international capital, established a fascist regime as the main bulwark of the struggle against communism in Europe. Fascist and semi-fascist regimes were set up in Italy, Greece, Finland, Spain, Bulgaria and Portugal.

The first stage of the general crisis of capitalism, which lasted almost three decades, could be divided into four periods.

The first period (1917-1923) was marked by a break in the chain of imperialism, by a mounting revolutionary and national liberation movement, and by a sharp decline in production as a result of the First World War and raging inflation.

The second period (1924-1928) saw a relative, uncertain stabilisation of capitalism. In the economic field, it was marked by a return to prewar levels, by a growth of production and trade in the capitalist countries and a temporary stabilisation of their currencies, and in the political field, by a temporary decline in the revolutionary movement and some consolidation of the political rule of the bourgeoisie.

The third period (1929-1939) was marked by a collapse of capitalist stabilisation, two economic crises, sharper socio-political contradictions between the bourgeoisie and the working class, and an exacerbation of inter-imperialist contradictions.

The fourth period included the Second World War (1939-1945). The war was started by the countries of the fascist coalition in order to establish world domination and to destroy the world's first socialist state. These calculations did not come true. In that gravest of wars, the Soviet people not only managed to uphold their freedom and independence, but also made the decisive contribution to saving the European and world civilisation from the fascist barbarians.

The Second Stage of the General Crisis of Capitalism

The second stage of the general crisis started in the mid-1940s, when the fascist coalition was defeated, when people's democratic and socialist revolutions gained victory in a number of European and Asian countries, when a world socialist system was formed and the colonial system of imperialism began to

disintegrate. World imperialism made yet another major step towards its final collapse.

A characteristic feature of the second stage was that a number of European and Asian countries fell away from the world capitalist system, turning socialism into a world system.

The transition from the first to the second stage of the general crisis also meant that the crisis of the colonial system of imperialism reached the point of its disintegration. The defeat of German fascism and Japanese militarism, and the fact that the positions of the leading colonial powers—Britain, France and Holland—had been weakened during the war accelerated the development of the national liberation movement.

From 1945 to 1956, about two dozen countries, including such big ones as India, Indonesia and Burma, won political independence, and the peoples of China, North Korea and North Vietnam took the road of socialist construction. The national liberation movement spread across the whole colonial world and turned into a powerful anti-imperialist force.

Another important feature of the general crisis of capitalism at the second stage was a deepening of the capitalist system's internal contradictions and instability, and the proletariat's greater militancy.

The flame of revolutionary struggle blazed in many European countries. Suffice it to say that in the early postwar years Communists were members of government in eight countries: Italy, France, Austria, Belgium, Denmark, Luxembourg, Norway and Finland.

In some countries, the bourgeoisie was obliged to make certain concessions to the working class in the fields of social insurance, public health, education and pensions. New and more democratic constitutions were adopted in France, Italy and Japan.

But the monopoly bourgeoisie in Western Europe managed to retain its positions, and in some countries was even able to launch a counteroffensive. In order to stop the working people's offensive in the capitalist countries, to suppress the national liberation movement and restore capitalism in the socialist countries, imperialism sought to consolidate its forces on a national and international scale, and to adapt itself to the new situation in the world. With that aim in view, the imperialist countries of Europe and America joined together under the US auspices into one military-political bloc, the North Atlantic Treaty Organisation. And Japan was tied to the USA by a special treaty.

In their bid to stop the advance of socialism and prevent

it from increasing its influence in the world, the imperialist forces, especially the USA, drew the socialist countries into a "cold war" and into an exhausting arms race. But capitalism's inevitable contradictions led to a further deepening of its general crisis.

The Third Stage of the General Crisis of Capitalism

The third stage of the general crisis started in the late 1950s and is still in progress.

The transition from the second to the third stage occurred with the advance from the disintegration of imperialism's colonial system to its final collapse, with the deepening of capitalism's economic and social contradictions, and a further change in the balance of forces between socialism and capitalism in favour of socialism.

A distinctive feature of the third stage is that it is not connected with a world war. It started at a time when the peace forces' efforts to implement the principles of peaceful coexistence between states with different socio-economic systems made it impossible for the imperialists' aggressive moves to break the universal peace.

That is highly important both from a theoretical and a practical standpoint for elaborating the strategy of the world revolutionary movement and for the struggle to resolve the most burning problem of today, that of preventing a world war.

Marxism-Leninism has never maintained that revolutions are engendered by wars. It is only suicidal maniacs who can now look forward to a world war as a means of staging a world revolution. It is just as crazy to count upon a world war as a means of saving capitalism.

The 27th Congress of the CPSU emphasised: "*The most acute problem facing mankind is that of war and peace...* The CPSU proceeds from the belief that, however grave the threat to peace posed by the policy of aggressive circles of imperialism, *world war is not fatally inevitable. It is possible to avert war and to save mankind from catastrophe. This is the historical mission of socialism, of all the progressive and peace-loving forces of the world.*

"The entire course of world development confirms the Marxist-Leninist analysis of the character and main content of the present epoch. *It is an epoch of transition from capi-*

talism to socialism and communism, and of historical competition between the two world socio-political systems, an epoch of socialist and national liberation revolutions and of the disintegration of colonialism, an epoch of struggle of the main motive forces of social development—world socialism, the working-class and communist movement, the peoples of the newly free states, and the mass democratic movements—against imperialism and its policy of aggression and oppression, and for democracy and social progress.

"The constant growth of these forces and their interaction are a pledge that the hopes of the peoples for a life of peace, freedom, and happiness will be fulfilled. The advance of humanity towards socialism and communism, despite all its unevenness, complexity and contradictoriness, is inevitable."[1]

3. THE DEEPENING INTERNAL CONTRADICTIONS OF CAPITALISM

The basic line in the development of the general crisis of capitalism is a deepening of its internal contradictions. Present-day capitalism, whose exploitive nature has not changed, differs in many respects from the capitalism of past centuries and even of the mid-20th century. Under the impact and against the background of the technological revolution, the conflict between the gigantically grown productive forces and the private-property character of social relations tends to sharpen. Unemployment grows, and social problems are aggravated across their whole spectrum. Pervasive militarism is the favourite means of spurring on the economy. The crisis of political institutions, of the whole spiritual sphere, tends to worsen, and the reactionaries have stepped up their pressure in every area of domestic and foreign policy, of the economy and culture.

The contradiction between labour and capital has been deepening. In the 1980s, monopoly capital has mounted an offensive along every line. Unemployment has reached unprecedented levels, remaining high not only during crises, but also in periods of economic recovery.

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[1] *The Programme of the Communist Party of the Soviet Union*, pp. 22, 23, 24.

Official Numbers of Fully Unemployed
(monthly average, million)

	Average for 1970-1979	1973	1979	1982	1983	1984	1985	1986
Developed capitalist countries, total	12.82	9.17	16.70	27.56	30,01	28.50	28,53	31.71
including								
USA	5.81	4.30	4.16	10.68	10.72	8.54	8.31	8.24
Canada	0.66	0.52	0.84	1.31	1.45	1.40	1.33	1.24
FRG	0.65	0.27	0.88	1.83	2.29	2.27	2.30	2.23
France	0.72	0.39	1.35	2.01	2.04	2.31	2.39	2.52
Britain	1.02	0.62	1.39	2.92	3.24	3.16	3.28	3.21
Italy	1.34	1.39	1.70	2.07	2.26	2.39	2.47	2.59
Spain	0.77	0.32	1.22	2.12	2.37	2.64	2.64	3.18
Japan	0.90	0.67	1.17	1.36	1.56	1.61	1.56	1.67

Unemployment is now the capitalist world's social problem No. 1. It is a major factor in aggravating social contradictions and, consequently, in deepening the general crisis of capitalism. The demand to reduce unemployment is the working people's most important demand alongside that of preventing a world war.

It is wrong to think, however, that growing unemployment automatically leads to a growth of the working-class movement. The huge army of unemployed is now a powerful weapon in the hands of monopoly capital in its struggle against the working class and the other working people.

Thus, labour union membership in the USA has gone down from 22 million in the early 1970s to 17 million in the mid-1980s, although the labour force has increased by roughly 20 million. Another indicative fact is that in 1981 over 10 million blue-collar and white-collar workers in the FRG gave up their annual holiday in order to keep their job.

In the 1980s, monopoly capital in the USA, Western Europe and Japan has launched an offensive against the working class.

The rising prices of consumer goods worsen the condition of the working class and sharpen the contradictions of capitalism. Although in the mid-1980s price inflation somewhat

slowed down, from 1981 to 1985 prices in the OECD countries rose by over 38 per cent.

Seeking to restructure the economy at the working people's expense, the ruling circles of the capitalist countries have been trying to "freeze" or even to cut the real wages of industrial and office workers, and to reduce the government's social spending. Using the grave situation on the labour market and threatening the working people with massive lockouts, monopoly capital has attacked one of their major gains: the system of wage indexation, i.e., wage rises depending on rises in the cost of living.

Another way to lower the people's living standards is to increase taxes. In 1985, taxes paid by US blue-collar and white-collar workers came to 82 per cent of all federal taxes, as compared with 71 per cent in the early 1980s.

In the 1960s and 1970s, when the economic outlook was favourable, the working class in the developed capitalist countries was able somewhat to improve its condition, whereas since the mid-1970s, the more frequent economic crises, technological restructuring of production, and mass unemployment have enabled monopoly capital to deprive the working people of many of their social gains.

An important factor in deepening the general crisis of capitalism is the aggravation of inter-imperialist contradictions, the emergence of their new forms and lines. The CPSU Central Committee's Political Report to the 27th Congress said: "This group of capitalist contradictions has not been eliminated either by class affinity, the interest in uniting forces, by military, economic and political integration, or by the scientific and technological revolution. The latter has incontestably accelerated the internationalisation of capitalist production, has given added impetus to the evening up of levels as well as to the leap-like development of capitalist countries. The competition that has grown more acute under the impact of scientific and technological progress, is affecting those who have dropped behind ever more mercilessly."[1]

Since the Second World War, the USA's positions in the world capitalist economy have on the whole weakened. But it would be a mistake to regard this as a steady and straightforward process. US imperialism has an immense production, scientific and technical potential, financial and manpower resources, and has been struggling to retain its predominance

[1] Mikhail Gorbachev, *Political Report of the CPSU Central Committee to the 27th Party Congress*, p. 19.

in the capitalist world, both by relying on its military strength and by putting political pressure on its partners and rivals.

There is yet another tightening knot of contradictions: between the transnational corporations (TNCs) and the national-state form of the political organisation of society.

In the early 1980s, according to UN data, the capitalist world had 10,000 TNCs with 82,000 affiliates. Their direct investments abroad exceeded $0.5 trillion, and their annual production of goods and services was close to $3 trillion.

American TNCs constitute the core of transnational monopoly capital. Their enterprises abroad use an additional army of workers and employees equalling one-half of the total labour force in US manufacturing itself. In the mid-1980s, these enterprises were producing roughly $1.5 trillion worth of goods and services a year, or nearly 40 per cent of the USA's gross output. The USA's "second economy" is twice or three times as large as the economy of the FRG, France or Britain, and is only smaller than that of Japan.

TNC expansion undermines the sovereignty of developed, as well as developing capitalist countries. Hence the modern unscientific theories of "ultra-imperialism", whose authors regard the transnationals as the chief motive force of progress in our day, for these allegedly put an end to the power of national states and establish "one international power".

4. THE DEEPENING CONTRADICTIONS BETWEEN THE IMPERIALIST AND THE DEVELOPING COUNTRIES

The colonial system of imperialism has collapsed, but the struggle between imperialism and the newly free countries has not come to an end. The imperialists have been trying hard to keep a hold on the former colonies. They will stop at nothing to continue plundering the newly free countries, prevent their development along the road to socialism, and use them as bridgeheads in the struggle against world socialism.

The liberation of the former colonies and semi-colonies struck a powerful political and ideological blow at the capitalist system. That system, as it took shape in the 19th century and existed in the first half of the 20th century has ceased to exist. The peoples that make up most of mankind are going through a difficult process of socio-economic transformations, a process which is slow but irreversible. Imperialism has been trying—and not without success—to adapt itself to the new conditions. In place of the old, classical colonialism it has created an ingenious system of neocolonialist exploitation, lashing to itself many newly free states.

That is a manifestation of the deepening contradictions between the imperialist and the developing countries.

First of all, there is the contradiction between the political independence of most developing countries and their heavy economic dependence on imperialism; between the growing power of transnational monopoly capital, on the one hand, and growing national dignity, the struggle for each people's right to an independent choice, on the other.

The gulf between monopoly wealth and the poverty of most developing peoples has been widening. In the early 1980s, the national income per head of the population in the developed capitalist countries was 11 times higher than that in the newly free countries (over the past three decades, that gap has been widening). Widespread illiteracy, chronic malnutrition and hunger, high infant mortality and epidemics in these countries are a disgrace to mankind, and imperialism is to blame for that.

There are deepening contradictions between the developing countries' rapidly growing indebtedness to imperialism and the possibilities for their economic development. Their overall indebtedness has topped $1 trillion, and is now one of the most explosive problems of present-day capitalism.

The objective possibility and the vital need to boost the productive forces of the developing countries are obstructed by the strategy of "technological imperialism", which is aimed at usurping the fruits of the technological revolution and at providing a new material basis for neocolonialist exploitation.

In order to perpetuate their domination, the imperialist powers cultivate militarism and hopes for social revanche in the developing countries. This bleeds their economy and is against their true interests.

The contradictions between imperialism and the developing countries remain unresolved, and keep mounting and deepening. As it was emphasised at the 27th Congress of the CPSU, "the military force that the USA is counting on to maintain the status quo, to safeguard the interests of the monopolies and the military-industrial complex, and to prevent any further progressive change in the newly free countries, can only complicate the situation and precipitate new conflicts. The bags of money are liable to become kegs of gunpowder. Sooner or later, in this area too, capitalism will have to choose between the policy of force and shameless plunder, on the one hand, and the opportunity for cooperation on an equitable basis, on

the other. The solutions must be radical—in the interests of the peoples of the developing states."[1]

5. THE STRENGTHENING POSITIONS OF SOCIALISM AND THE DEEPENING GENERAL CRISIS OF CAPITALISM

Socialism is not the cause of the general crisis of capitalism. A triumphant socialist revolution in each country is a natural result of the development of its internal contradictions. But as the product of these contradictions, existing socialism has a powerful feedback effect on the general crisis of capitalism.

The Great October Socialist Revolution gave rise to a new social system, a new civilisation, which has now spread across a vast territory and which is no longer subject to the laws of capitalism.

How does the world socialist system serve to deepen the general crisis of capitalism?

First, the strengthening positions of socialism limit the power of the bourgeoisie in the international arena. The laws of the development of international (including inter-imperialist) relations are no longer determined solely by imperialism, but to an immense extent by socialism as well.

Second, existing socialism is an important mainstay of the national liberation movement. The socialist countries support the young developing states in their struggle for economic independence, for just and equitable international economic relations, for an observance of their sovereign rights.

Third, existing socialism influences the revolutionary movement in the developed capitalist countries. The gains of socialism, especially in the social and political field, in raising the people's living standards, in developing democracy and the working people's involvement in running production and the state, encourage the working people in the capitalist countries in their struggle for their rights.

Fourth, socialism opposes the imperialist attempts to export counter-revolution.

Fifth, socialism is the main force called upon to save mankind from a thermonuclear disaster. Its struggle to end the arms race, bring about disarmament, and prevent a world war has the sympathies of the peoples of the world, strengthening their faith

[1] Mikhail Gorbachev, *Political Report of the CPSU Central Committee to the 27th Party Congress*, p. 23.

in mankind's survival and heartening them in their struggle against militarism and imperialism.

The greater the successes of socialism in the economy, science and culture, in the social and political spheres, the higher the level of man's material and spiritual life under socialism, and the fuller the extent to which its advantages over capitalism are realised, the greater is its influence on the development of the revolutionary, democratic and anti-imperialist movement in the capitalist world and, consequently, on the deepening of the general crisis of capitalism. And, conversely, each major mistake or failure in socialist construction inspires the reactionary forces in the struggle against progress, gives them hope of social revanche, and complicates the positions of the revolutionary, democratic and anti-imperialist forces.

That is why implementation of the strategic line of the CPSU and other fraternal parties for accelerating socio-economic development is of immense international importance.

QUESTIONS FOR DISCUSSION

1. What is the essence of the general crisis of capitalism?
2. What are the main features of the general crises of capitalism?
3. What are the signs of its aggravation in the 1970s and 1980s?

Chapter Seven

THE STATE AT THE SERVICE OF THE MONOPOLIES

> The monstrous oppression of the working people by the state, which is merging more and more with the all-powerful capitalist associations, is becoming increasingly monstrous.
>
> *Lenin*

State-monopoly capitalism (SMC) is the main weapon in the struggle of the reactionary forces to save capitalism and the main obstacle on mankind's way to progress. That is why a study of its essence, the main lines of its development, and its influence on the world revolutionary process is of practical, as well as theoretical importance. In this chapter, we shall examine the concept of state-monopoly capitalism; the basic forms of its manifestation; the military-industrial complex and the growing aggressiveness of imperialism; the SMC as the antipode and threshold of socialism.

1. WHAT IS STATE-MONOPOLY CAPITALISM?

SMC's Essence

In developing his theory of imperialism, Lenin showed that monopoly capitalism was bound to evolve into state-monopoly capitalism. He repeatedly pointed out that "the imperialist war has immensely accelerated and intensified the process of transformation of monopoly capitalism into state-monopoly capitalism".[1]

Lenin defined the essence of state-monopoly capitalism as "combining the colossal power of capitalism with the colossal power of the state into a single mechanism".[2]

[1] V.I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, 1977, p. 387.

[2] V.I. Lenin, "War and Revolution", *Collected Works*, Vol. 24, 1974, p. 403.

Lenin's analysis of SMC was further developed in the documents and resolutions of the CPSU and the international communist and working-class movement. A statement issued by the 1960 International Meeting of Communist and Workers' Parties said: "In tightening the hold of the monopolies over the nations, state-monopoly capitalism combines the power of the monopolies with the power of the state into a single mechanism in order to save the capitalist system and to maximise the profits of the imperialist bourgeoisie by exploiting the working class and plundering broad strata of the population."[1]

Monopoly and state power is combined in every sphere of social life: in the economy, politics, science, ideology and culture. But the basis for that process is provided by the new relations in the economy.

The bourgeois state used to intervene in the economy even before the imperialist epoch. It played an important role in forming the capitalist mode of production, accelerating the advance from the feudal mode of production to the capitalist one. Under free-competition capitalism, its role in the economy markedly declined.

The situation changed once again with the transition to imperialism. Having seized the key positions in the economy, *the financial oligarchy seeks to use the growing power of the bourgeois state to extend its own domination and increase its profits.* With that aim in view, the monopolies install their representatives in leading government posts so that they should follow a pro-monopoly policy. Top government officials help the monopolists to obtain profitable contracts, goverment credits on easy terms, tax, customs and other benefits, so hoping to "earn" lucrative posts high up in the monopoly hierarchy. That is known as the "personal union" between the magnates of finance capital and the government.

But the urge to combine monopolies with the state is engendered not only by the monopolists' greed for higher profits. It has more profound, objective reasons as well. The economic basis of that process is the *growing social character of production*, and its immediate cause is capitalism's deepening contradictions, its basic contradiction above all.

The development of the productive forces sharpens the contradiction between the social character of production and private-capitalist appropriation. Today, the social character of production is ever more pronounced. Many branches of the

[1] *The Struggle for Peace, Democracy and Socialism. Policy-Making Documents*, Moscow, 1961, pp. 40-41 (in Russian).

social and production infrastructure (the power industry, transport, general and professional education, public health, research, protection of the environment, etc.) require a *long-term development policy for the whole nation*, since the monopolies either find such investments unprofitable or cannot make them in view of the scale of the project, so that the state concentrates in its hands immense economic resources and holds the reins of economic administration. But a solution of the arising complicated problems is inevitably obstructed by the narrow framework of private property. That is manifested in cyclical crises of overproduction, underloading of productive capacities, a shortage of capital investment in some industries, massive unemployment, inflation, and so on.

There is also a deepening *contradiction between the internationalisation of production and capital*, on the one hand, and *the nationally organised systems of the capitalist economy*, on the other. The monopolies have grown out of their "national garb", and many of the biggest ones have gone transnational, with enterprises in dozens of countries. Hence the need for new forms of regulating international economic relations, and that is impossible without a combination of monopoly and state power.

The deepening contradictions between labour and capital are among the main reasons for the emergence and development of SMC. In order to combat the working class, the monopolies not only unite among themselves into employers' unions, but also help to build up the state machine of coercion.

The contradictions between the monopolies of different countries have also taken a sharper turn. In their expansion abroad, the monopolies rely on the support of their own state, which seeks to perfect the sectoral structure of the economy and to develop new lines of production.

Another major reason for the development of SMC is the collapse of the colonial system of imperialism. Imperialism cannot bear to see its influence in the newly free countries undermined, and the monopolies together with the state have engineered a system of neocolonialism.

Finally, another factor stimulating the development of SMC is the *contest between the two world systems*, capitalist and socialist. With the help of the state, the monopolies are looking for ways to maintain their domination and prevent any change in the balance of forces in favour of socialism.

The Mechanism of Combining Monopoly and State Power

How is monopoly power combined with state power? What is the mechanism which transforms the economic power of the monopolies into political power? And how is that political power used to strengthen their economic rule?

An important part in combining monopoly and state power is played by political parties, by religious, youth and other bourgeois organisations, the electoral system, the mass media and mass communications. But the central element in that mechanism, as practice shows, is *employers' associations* (unions), bourgeois organisations whose special purpose is to unite the capitalists in the struggle against the working class and to influence the organs of state power.

Employers' associations are monopoly headquarters: the Federation of German Industries (FRG), the National Council of French Employers (Patronat), the National Association of Industrialists (USA), the Confederation of British Industry, the General Confederation of Italian Industry, the Japan Federation of Economic Organisations (KEIDANREN), and others.

Employers' associations are a great economic and political force. Thus, the Federation of German Industries includes about 95,000 enterprises and firms, that is, virtually all industrial enterprises in the FRG. It has its offices in Bonn, New York, London, Paris and Brussels, close to the governing bodies of the EEC and NATO. These associations have for a long time now been operating across national borders. Today, there are more than 200 international sectoral associations, and also international associations of national unions, like the Council of West European Industry, which includes the major national unions of the EEC.

So how do employers' associations convert the economic power of the monopolies into political power?

One of the major channels for using the power of the state in the interests of the monopolies is the involvement of employers' associations in filling government posts to ensure the *"personal union" of monopoly capital and the state.* Employers' associations finance up to 90 per cent of the expenditures of bourgeois parties and determine the number and personal make-up of the candidates from each of these, and also take part in forming the government.

Employers' associations take part in *drafting the laws of the capitalist countries.* Thus, the Federation of German Industries annually puts before the country's government and parliament up to 200 or more bills, most of which are enacted into law.

A significant role in the SMC mechanism is played by the

army of lobbyists,[1] maintained by employers' associations and in the USA by individual monopolies as well. In the USA, for instance, the number of officially registered lobbyists is eight times as high as the number of congressmen.

Yet another key channel for combining monopoly and state power into a single mechanism is the formation by employers' associations of so-called *advisory committees and commissions* under the ministries and the government, where monopoly and government spokesmen work together.

2. THE MAIN FORMS OF SMC

The essence of SMC is manifested in numerous forms, the most important of which are state (public) ownership, state (public) enterprise, state-monopoly economic regulation and programming, militarisation of the economy and formation of military-industrial complexes, incentives to external economic expansion by the monopolies, and development of international forms of SMC.

State-Monopoly Property and Public Enterprise

State-monopoly property includes industrial, transport, building, public utility and other enterprises; the property of government institutions and departments (administration, army, police); the assets of the state-run social infrastructure (education, public health, social security); the funds of the state budget and the state monetary system.

State property grows with the development of SMC. The capitalist state has at its disposal an ever larger share of the national income. In the early 20th century, its share in the national income was around 8-10 per cent, whereas in the 1980s it is around 40 per cent in the USA and 45-50 per cent in the West European countries.

State-run (public) enterprises are an important part of state property.

In the FRG, for instance, these account for 98 per cent of all the extracted coal, 70 per cent of the electric power produced, 93 per cent of rail and 100 per cent of air traffic, roughly 70 per cent of all the aluminium produced, and over 40 per cent of the country's shipbuilding output. The state's share in the value of the fixed production assets in the capitalist countries ranges from

[1] Lobby—a group of persons who seek to influence public officials in favour of monopoly interest groups.

10 per cent in the USA, to 20-30 per cent in the FRG, Canada and Japan, and to 30-45 per cent in Britain and France, and its share in manufacturing ranges from 1-2 per cent in the USA to 10-15 per cent in Britain, Sweden, France and the FRG, and to 20-25 per cent in Austria and Italy.

Public enterprise in the production sphere mostly emerges and develops through new construction at the expense of the state budget, nationalisation of private enterprises, state purchase of the shares of private enterprises, and an extension of public enterprises at their own expense.

The state usually nationalises old and low-profit enterprises, paying their owners a large compensation and enabling them to re-invest their capital in more profitable areas. The state also invests a great deal in R&D and in the development of the latest lines of production, which initially require large capital investments and show a loss. But as soon as they begin to make a profit, they are sold off at low prices to the monopolies.

The monopolies are enriched at the expense of state enterprises, buying their goods and services at low prices and selling them their own output at monopoly-high prices.

Thus, in the mid-1970s, the French state-run association Charbonnage de France extracted coal at a cost of 103.4 francs a ton, selling it to the public at 305.4 francs a ton, and to the monopolies at 95 francs a ton. There is a similar pricing system in gas, electric-power and water supply, and in railway freight traffic in France and other West European countries.

So, public ownership and public enterprise help to enrich the monopolies. But does this mean that the monopolies want to expand the public sector? As a rule, they are against its expansion, for they regard it as a potential threat to their political, as well as their economic, domination. After all, public enterprises demonstrate that production can well be developed without "sacred" private property. That is why public enterprises in the FRG, Britain and other West European countries are often reprivatised. French monopoly capital, in particular, has launched a sweeping reprivatisation campaign when the government of Jacques Chirac came to office in 1986.

The working class wants more enterprises to be nationalised, for this makes it possible to influence their activity and, most importantly, helps to consolidate the working class.

State-Monopoly Regulation and Programming of the Economy

Regulation of the economy is one of the main manifestations

of SMC. State-monopoly regulation of the economy is intervention by the bourgeois state in the process of capitalist reproduction in order to tone down its sharpest contradictions and increase monopoly profits. The capitalist society's productive forces have long outgrown the framework of private property and call for social administration of production. And that makes it necessary to eliminate private property and replace it with social property. But the monopoly bourgeoisie can never agree to that. The most it can agree to is state-monopoly regulation of the economy.

The measures being taken to regulate the economy could be divided into *administrative-legal* and *economic*. The former include constraints on the production of certain types of output, control over the distribution of raw and other materials, compulsory amalgamation and closure of small enterprises, labour conscription, regulation of working conditions, wage ceilings, etc. Most of these methods have been widely used in the capitalist countries during wars and crises.

Economic regulation is exercised through public enterprise and capital investment by the state, through budget, credit and monetary policies.

When the economic outlook is unfavourable, the state increases capital investments and extends the demand for machinery, equipment and building materials, so affecting the overall state of the economy. And when there are signs of overproduction, it reduces capital investments so as not to exacerbate the over-production. The state accounts for one-fifth to one-third of all capital investments in the capitalist countries. It also supports low-profit industries. Its main attention, however, is focussed on the development of the latest branches of production, R&D, and training of personnel. By financing these expenditures, the state helps the monopolies to promote R&D, apply their results in production, and strengthen their positions in their global competitive struggle.

The *state budget* is a key instrument in regulating the economy, used by the state to finance its anti-cyclical, social, structural, and external economic policies. The economy is influenced through taxes (fiscal and depreciation policy) and especially through expenditures (public procurements, subsidies to monopolies, capital investments, outlays on R&D, and social expenditures).

A major instrument of state-monopoly regulation is *monetary policy*, which influences both investment and consumer demand. The regulating impact of monetary policy manifests

itself as follows: when a crisis appears to be imminent the state toughens the terms of credit offered by private banks so as to reduce the demand for goods and damp down their overproduction, and once the crisis breaks out it loosens these terms so as to increase the demand for goods and thus to slow down the decline in production.

Government programming is the highest form of state regulation of the economy. It is an attempt to tie in the various forms of state and monopoly regulation in one system of measures in order to attain definite goals. The government elaborates long-term programmes for investments, exports, imports, training of skilled personnel, R&D, and so on. All these programmes ultimately help to create the most favourable conditions for the monopolies. Through state investments, procurements, tax and depreciation privileges and subsidies, and also through monetary policy, the government can take measures to change the sectoral structure of the economy, ensure capitalist rationalisation, and reduce the risk of new investments for the monopolies.

Bourgeois economists try to identify government programming with socialist planning, but these attempts are unjustified. Programmes are mere recommendations and cannot do away with the anarchy of capitalist production, as it is evident from economic crises, underloading of production capacities and massive unemployment. The CPSU Programme says: "No 'modifications' and manoeuvres by modern capitalism have rendered invalid or can render invalid the laws of its development, or can overcome the acute antagonism between labour and capital, between the monopolies and society, or can bring the historically doomed capitalist system out of its all-permeating crisis."[1]

3. MILITARISATION OF THE CAPITALIST ECONOMY AND THE MILITARY-INDUSTRIAL COMPLEX

Militarisation of the economy and formation of military-industrial complexes (MICs) are among the key manifestations of state-monopoly capitalism. MICs play a major role in the economy and politics of capitalist countries and exert a strong influence on the international situation.

Militarism is a system of measures aimed at building up the military might of the exploitive state. It has reached its peak

[1] *The Programme of the Communist Party of the Soviet Union*, p. 18.

under imperialism. Lenin wrote: "Imperialism... is, by virtue of its fundamental *economic* traits, distinguished by a minimum fondness for peace and freedom, and by a maximum and universal development of militarism".[1] With the development of the general crisis of capitalism, "the whole of social life is now being militarised".[2] But the basic feature of that process is militarisation of the economy, as a significant part of it is being switched to arms production.

Before the Second World War, militarisation of the capitalist economy was only characteristic of wartime and periods of preparation for war, whereas now it is under way in the conditions of relatively peaceful coexistence between states with different social systems.

In order to combat world socialism, the national liberation movement and the revolutionary movement at home, the imperialist powers have set up, under US auspices, a network of military-political blocs, the most important of which is NATO.

NATO's direct military expenditures went up from $18.7 billion in 1949 to $113.5 billion in 1971 and to $469.1 billion in 1985. The USA, whose ruling circles launched a frenzied arms drive, is in the lead: its military expenditures rose from $1.5 billion in 1940 to $138 billion in 1980 and to $267 billion in 1985.

The Military-Industrial Complex as the Generator of the Arms Race

Militarisation of the capitalist economy has led to the formation of military-industrial complexes. *A military-industrial complex is a sinister alliance of arms manufacturers, the elite of the state apparatus, and the top military.* It is the ugliest, most parasitic and dangerous manifestation of state-monopoly capitalism. The arms race yields huge profits for the arms corporations. In order to increase these profits, they seek to fuel conflicts in different parts of the world, to aggravate the international situation.

In the USA, government arms contracts are held by 20,000 prime contractors, with roughly 100,000 subcontractors and suppliers. But most of the contracts go to a handful of the biggest corporations. Thus, 100 of the Pentagon's leading contractors account for 65-70 per cent of the total value of prime contracts, the top 25 contractors—for 45-50 per cent, and the top 10—for up to 35 per cent.

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[1] V.I. Lenin, "The Proletarian Revolution and the Renegade Kautsky", *Collected Works*, Vol. 28, 1977, p. 239.

[2] V.I. Lenin, "The Military Programme of the Proletarian Revolution", *Collected Works*, Vol. 23, p. 82.

The military-industrial complex has a powerful impact on the domestic and foreign policy of the capitalist states, pressing ahead with the arms drive and pushing mankind towards a nuclear disaster.

The Burden of Militarism

SMC and MIC ideologists claim that military expenditures stimulate economic development. Such claims are utterly unjustified. The arms race is dangerous not only in view of its ultimate result: the possible outbreak of a war. The very preparation for war is a grave crime against mankind. The arms race started by imperialism puts a heavy burden on all countries, irrespective of social system, geographical location, size of territory or economic level. It leads to a gigantic waste of mankind's material and spiritual resources, which are necessary to fight hunger, disease and illiteracy, to solve raw-material, energy, ecological and other global problems.

The labour of tens or even hundreds of millions of people is wasted in the senseless arms race. About 70 million highly skilled personnel are employed in the military sphere. The share of skilled workers at US arms enterprises is 50 per cent higher than in the economy as a whole, and the number of researchers per 1,000 production workers in the arms industry is 7.5 times as high as in the civilian industries. Far from serving to increase the real social product, the labour of those employed in the military sphere leads to its dissipation. They destroy wealth, living at the society's expense, through a redistribution of the national income created in the civilian industries.

Bourgeois ideologists also claim that militarisation stimulates scientific and technical progress. In actual fact, the arms race does immense harm to scientific and technical development. Imperialism distorts the very concept of scientific and technical progress, for the most brilliant discoveries of the human mind are used to destroy man instead of improving his condition. Militarism "is becoming the ugliest and the most dangerous monster of the 20th century. Because of its efforts, the most advanced scientific and technical ideas are being converted into weapons of mass destruction".[1]

The MIC is financed through an increase in the working people's tax burden. Americans now pay an average tax (federal and local) of 37 cents on every dollar they earn. But even the

[1] Mikhail Gorbachev, *Political Report of the CPSU Central Committee to the 27th Party Congress*, p. 13.

growing tax revenues are not enough to satisfy the insatiable appetites of the MIC, and the government has to finance it at the expense of a huge budget deficit and greater borrowing. The growing deficit and public debt lead to cutbacks in social programmes, to rising debt service payments and further inflation. After all, the outlays on a single Trident submarine could be used to build houses for 2 million people.

SMC and MIC ideologists claim that the growth of military spending helps to reduce unemployment. In actual fact, the arms race tends to increase unemployment, for arms production has a high capital intensity and a low labour intensity. The arms race puts a heavy burden on the economy of the developing countries and diverts significant resources from peaceful construction in the socialist countries.

Militarism not only distorts the economy, but also poisons the political and ideological atmosphere. To justify militarism, its ideologists invent myths about a "Soviet threat" and about the need to protect the US "vital interests"; they revive nationalism and revanchism, and attack the working people's democratic rights.

The military-industrial complex is serviced by a vast propaganda machine. The US military department alone publishes over 1,000 newspapers, about 400 magazines, and different bulletins with a total circulation of over 12 million copies. The US navy has close contacts with 600 TV and 5,000 radio stations, and also with hundreds of other mass media. Roughly $5 billion is spent on US propaganda abroad, and over the past two decades the allocations to the Pentagon for these purposes have increased 15-fold.

The arms corporations, the generals, the government bureaucracy, the ideological apparatus, and militarised science, which constitute the military-industrial complex, are the most zealous advocates of the policy of adventurism and aggression. The sinister alliance of the arms manufacturers and imperialist state power is the mainstay of the extreme reactionary forces, a constant and growing military threat, and convincing proof of the capitalist system's political, social and moral bankruptcy.

4. SMC AS THE ANTIPODE AND THRESHOLD OF SOCIALISM

SMC and the Prerequisites for a Socialist Revolution

State-monopoly capitalism has to some extent widened the framework of private capitalist property, making it possible to

develop industries which private monopolies find unprofitable or beyond their means, and helping to develop the productive forces. But far from resolving the basic contradiction of capitalism, as bourgeois theorists seek to prove, it has further deepened that contradiction and accelerated the formation of the *material prerequisites for socialism.* Lenin wrote in 1917: "State-monopoly capitalism is a complete *material* preparation for socialism, the threshold of socialism, a rung on the ladder of history between which and the rung called socialism *there are no intermediate rungs.*"[1]

Since then, the socialisation process has made a gigantic stride forward. The material and technical basis of capitalism has been radically renewed, while the concentration of production and capital and the social division of labour have increased many times over. Gigantic production complexes have taken shape, with hundreds of enterprises in dozens of countries. The growing socialisation of production shows that the material prerequisites for socialism in the developed capitalist countries have long since matured. But a socialist revolution requires not only objective, but also subjective prerequisites, a well-organised working class prepared, if necessary, to make sacrifices in the struggle to overthrow the power of capital and to lead forward all the other working people.

So how does state-monopoly capitalism influence the formation of the subjective prerequisites for a socialist revolution? Its influence is two-fold and contradictory. On the one hand, it exacerbates all the contradictions of capitalism, and primarily its basic contradiction: that between labour and capital. That is evident in a further class polarisation of the society, greater exploitation of the working class, greater social instability, and a more intensive class struggle. There is a deepening contradiction between the unprecedented opportunities opened by the technological revolution and the obstacles raised by SMC in the way of their use in the interests of the society as a whole. The proletariat's class struggle is increasingly tied in with popular action against the military adventures of the imperialists. On the other hand, state-monopoly capitalism creates a powerful machine (economic, ideological, administrative, military and police) for suppressing the revolutionary struggle of the working class.

The formation of material prerequisites for socialism does not automatically lead to a socialist revolution. As the classics

[1] V.I. Lenin, "The Impending Catastrophe and How to Combat It", *Collected Works*, Vol. 25, 1977, p. 363.

of Marxism-Leninism emphasised, the historical inevitability of socialism means that the periodic socio-political explosions in the capitalist society merely create opportunities for a socialist revolution, whereas their realisation depends entirely on the subjective factor, the level of the revolutionary struggle of the working class. Marx and Engels repeatedly pointed out that "to remove the propertied classes from power we need above all a revolution in the minds of the working masses... Measures which actually lead to liberation will only become possible when an economic revolution will make the broad masses of the workers realise their condition and thereby clear the way for them to political domination".[1]

In developing the theory of socialist revolution, Lenin emphasised that revolution does not arise out of every revolutionary situation, but "only out of a situation in which the ... objective changes are accompanied by a subjective change, namely, the ability of the revolutionary *class* to take revolutionary mass action *strong* enough to break (or dislocate) the old government, which never, not even in a period of crisis, 'falls' if it is not toppled over".[2]

The growth of the productive forces and the sharpening contradictions of capitalism make a transition to socialism ever more imperative. But state-monopoly capitalism raises ever new obstacles in the way of the revolutionary movement.

The Democratic Alternative to the Reactionary Policy of SMC

The fundamental social problems stemming from irreconcilable class contradictions cannot be resolved under capitalism. What is necessary is a revolutionary transformation of the society, a replacement of capitalism with socialism. But a socialist revolution does not break out automatically, it should be prepared. A democratic alternative to the reactionary state-monopoly policy is an important instrument in mobilising the working class and other working people in the struggle for socialism.

Lenin first raised the question of such an alternative during the First World War. He emphasised that "given a really revolutionary-democratic state, state-monopoly capitalism inevi-

[1] Karl Marx/Friedrich Engels, *Werke*, Band 38, Dietz Verlag, Berlin, 1968, pp. 64-65.

[2] V.I. Lenin, "The Collapse of the Second International", *Collected Works*, Vol. 21, 1978, p. 214.

tably and unavoidably implies a step, and more than one step, towards socialism".[1] Lenin saw many measures taken by the revolutionary-democratic state to regulate the economy as a step towards socialism: "Universal labour conscription, introduced, regulated and directed by the Soviets of Workers', Soldiers' and Peasants' Deputies, will *still not* be socialism, but it will *no longer* be capitalism. It will be a tremendous *step towards* socialism, a step from which, if complete democracy is preserved, there can no longer be any retreat back to capitalism, without unparalleled violence being committed against the masses."[2] These propositions are a starting point for elaborating a democratic alternative to SMC.

The concrete tasks of such a democratic alternative differ from one country to another. They can also change in one and the same country as the anti-monopoly struggle unfolds. The most important general tasks are:

1. A cessation of the arms race, cuts in military spending and disarmament. This would mark a serious step forward in saving mankind from a thermonuclear catastrophe. It would also be possible to lower taxes on the population, increase social spending, reduce unemployment, and bar one of the main channels of inflation.

2. Nationalisation of the key industries, the biggest banks, insurance companies and monopoly enterprises, primarily those producing arms, so as to eliminate the military-industrial complex as the most parasitic part of SMC.

3. A struggle against mass unemployment and its consequences, to maintain existing and create new jobs.

4. The working people's involvement in running production on every level: from enterprises to economic regulation and programming on a national scale.

5. A democratic tax reform in order to ensure a fair distribution of the tax burden.

6. Democratic control over the mass media (the press, radio, television and the cinema) and nationalisation of the most reactionary newspaper and magazine concerns.

7. Efforts to erode and eventually overcome the power of monopoly capital.

For the anti-imperialist struggle to succeed, it is highly important to consolidate the positions of the communist and workers' parties, strengthen their ties with the working masses,

[1] V.I. Lenin, "The Impending Catastrophe and How to Combat It", *Collected Works*, Vol. 25, pp. 361, 362.

[2] Ibid., p. 364.

and ensure unity of action by all anti-monopoly, anti-imperialist forces.

QUESTIONS FOR DISCUSSION

1. What is the essence of state-monopoly capitalism (SMC)?
2. What are the main manifestations of SMC?
3. What are the main goals of the modern imperialist state's economic policy?
4. How is state-monopoly regulation of the economy effected?
5. Why do growing military expenditures serve to increase unemployment?

Chapter Eight

THE NEWLY FREE COUNTRIES: WAYS OF DEVELOPMENT

> The liberation of former colonies and semi-colonies was a strong political and ideological blow to the capitalist system. A slow, arduous, but irreversible process of socio-economic transformations is under way in the life of nations comprising the majority of mankind.
>
> *From the Political Report of the CC CPSU to the 27th Party Congress*

We have examined the economic laws of the emergence and movement of the capitalist mode of production, with a brief look at the history of the developed capitalist countries. But the world capitalist economy also includes more than 120 states which have freed themselves from colonial dependence. They have already come to play an important role in the world economy and politics, and that role is bound to increase. Some newly liberated countries are following the capitalist path, while others have taken the revolutionary-democratic road, orienting themselves towards socialism. And the global balance of forces between socialism and capitalism, mankind's general progress largely depend on the way these countries will follow.

To clarify the place and role of the newly free countries in the world, one should examine the main problems of their socio-economic development.

In this chapter, we shall consider the following questions: economic backwardness as a legacy of colonialism; neocolonialism, its goals and methods; two ways of development.

1. ECONOMIC BACKWARDNESS AS A LEGACY OF COLONIALISM

Extreme backwardness is the most characteristic feature of the economy of most developing countries. It means a low level

of the productive forces, a lopsided and multisectoral economy, largely subsistence-type production, and archaic methods of the working people's exploitation (usurer's and merchant capital, semi-feudal forms of rent). Labour productivity levels in these countries are very low, especially in agriculture, and the machinery and technology being used are extremely primitive, although most of these countries are located in favourable climatic zones and have abundant manpower and mineral resources.

They account for 88 per cent of all prospected oil reserves and 73 per cent of total oil production in the capitalist world, 66 per cent of the gas reserves and 12 per cent of gas production, 60 per cent of the copper reserves and 50 per cent of copper production, 45 per cent of the iron-ore reserves, 66 per cent of the bauxite reserves and so on.

So why have these countries lagged behind in the development of the productive forces? What are the causes of their dire poverty?

Bourgeois economists mostly attribute their backwardness to much too rapid population growth and say that if their population were reduced, the material standards of those who were left could go up.

Such statements are not only inhumane and reactionary, but also unscientific. Of course, population growth puts serious problems before the newly free countries, but it is not the cause of their economic backwardness.

Historical facts show that the cause of their backwardness lies in the policy of colonialism and neocolonialism pursued by the imperialist countries.

In the epoch of premonopoly capitalism, the enslaved countries paid taxes and other tributes, and their peoples worked for the conquerors. In the epoch of monopoly capitalism, the methods of exploitation changed. That was primarily due to the export of goods and capital. The economy of the colonial countries was made to meet the needs of the metropolitan countries. The native population was deprived of the best lands, and the food crops that provided it with food were replaced with industrial crops required by the industry of the colonialist country.

Thus, in the days of French rule in Algeria, per head production of wheat, the country's staple food crop, was halved in the period from 1871 to 1940. In India, the introduction of industrial crops y the British resulted in a grave food problem. The colonialists plundered the natural environment in Asia, Africa and Latin America. They destroyed one-half of all the forests in North and Equatorial Africa, and 93 per cent of those in Madagascar. Today, over

25 million hectares of forest in Asia and South America is being destroyed or perishes every year at the hands of the monopolies.

As a result of the colonialists' systematic plunder of the enslaved countries, the latter's gross product per head of the population no more than doubled in the course of two centuries, and that of the metropolitan countries multiplied 15.5-fold.

2. NEOCOLONIALISM: GOALS AND METHODS

The collapse of the colonial system was a great victory of the national liberation movement and the whole of progressive mankind. "*The collapse of the system of colonial slavery under the impact of the national liberation movement was the second major historical event after the formation of the world socialist system.*"[1]

In under two decades (1945-1960), the biggest colonial empires—British, French, Dutch and Belgian—were wiped off the political map of the world, followed by Portugal's in 1974. Imperialist domination in the former colonial world appeared to be a thing of the past. But the imperialists did not intend to give up their positions. Once they lost their open domination, they entangled the developing countries in a stifling web of neocolonialism.

With the help of neocolonialism—a system of economic, political, ideological and military measures—imperialism seeks to retain the newly free countries within the orbit of the world capitalist economy, to continue and intensify their exploitation, direct them along the road of dependent capitalist development, and prevent them from taking the road to socialism.

The economic dependence of the developing countries, inequitable economic relations constitute the basis of neocolonialism.

Lenin emphasised that economic liberation was crucial to national liberation.[2] The developing countries' experience confirms that state sovereignty is merely a necessary prerequisite for economic freedom. Economic independence alone turns state sovereignty into a real thing, laying the groundwork for true political independence.

Colonialism left the newly liberated countries an extremely

[1] *The Struggle For Peace, Democracy and Socialism. Policy-Making Documents*, p. 64 (in Russian).

[2] See, V.I. Lenin, "The Social Significance of the Serbo-Bulgarian Victories", *Collected Works*, Vol. 18, 1973, p. 398.

backward, multisectoral[1] economy. After the Second World War, as the colonial empires collapsed one after another, the imperialist states together with the monopolies launched a large-scale programme in support of the private-capitalist sector in the former colonies so as to develop national capital dependent on foreign monopolies.

The Main Instruments of Neocolonialism

These include export of capital, inequitable capitalist international division of labour and non-equivalent exchange, economic and technical "aid".

The developing countries' mining industry has been and remains the basic sphere of capital investment by the developed capitalist countries. It provides 25 per cent of iron ore used in the capitalist countries, 50 per cent of bauxites, 55 per cent of copper ore, 65 per cent of manganese ore, 80 per cent of tungsten concentrate, and 90 per cent of tin concentrate.

Over the past few years, there has also been a rapid increase in monopoly investments in manufacturing. The monopolies primarily seek to export to the developing countries labour-intensive lines of production and those which pollute the environment. The development of manufacturing industries in these countries is also dictated by the needs of the world capitalist economy. The most important point, however, is that the monopolies seek to gain control over the key branches of industry in the developing countries so as to increase their influence on the whole course of economic development in these countries.

Export of capital is also a crucial instrument for extending the rule of the transnationals, boosting their profits and giving them greater control over production.

From 1975 to 1985, the profits received by US corporations from the developing countries were four times as high as their investments in these countries, and for Latin America and the Caribbean the figure was more than eight times.

Enterprises owned by foreign monopolies produce 30 per cent of Central America's (including 90 per cent of Guatemala's) industrial output. About 70 per cent of the total capital in Nigeria's manufacturing industry, 60 per cent of Zair's and 50 per cent of Ghana's is in the hands of foreign monopolies.

[1] These countries often have a patriarchal, tribal, feudal, semi-feudal, small-commodity, private capitalist (subdivided into national and foreign monopoly capital) and state sectors.

In Kenya, British monopolies control roughly 80 per cent of total industrial production, and in Morocco, French capital controls roughly 50 per cent of the country's industrial assets and 60 per cent of its exports.

Having seized the key positions in the economy of many young states, foreign monopoly capital has been following a policy to prevent them from developing their national industry and ultimately from achieving economic independence.

The *distorted capitalist international division of labour* also serves the interests of neocolonialism. Paying no attention to state borders and national interests, the TNCs build their enterprises only where they can minimise production costs and enjoy maximum tax benefits. They break up the integral production process into parts and locate these in different countries (thus, automobile engines may be produced in one country, chassis in another, tyres and bodies in a third, and assembly operations in a fourth). So, the enterprises being set up in a host country cannot turn out the final product on their own, which makes them dependent on the transnationals that own all the other enterprises involved in its production.

The *foreign trade policy* of the imperialist countries and the transnationals is another important instrument of neocolonialism.

In the mid-1980s, copper made up 93.3 per cent of Zambia's exports, coffee—81 per cent of Colombia's exports, jute—75.3 per cent of those of Bangladesh, cotton—68 per cent of those of Chad, coffee—66.2 per cent of those of Uganda, copper—65.8 per cent of those of Chile and 64 per cent of those of Zair, cotton—53.1 per cent of those of Sudan, sugar—52.8 per cent of those of the Dominican Republic, phosphates—47.8 per cent of those of Togo, and tin—47.8 per cent of those of Bolivia. In these conditions, changes in the prices of one or two raw materials could be crucial to export earnings, budget revenues, capital investments, etc., so in practice undermining production of these commodities and, consequently, the economy of the exporter-countries.

The transnationals control 75 to 95 per cent of the deliveries of mineral and agricultural raw materials, plundering the newly free countries. National states here are no more than intermediaries, while the ultimate sellers of the products are the monopolies.

The dimensions of the plunder can be judged from these figures: no more than 20 per cent of the earnings from the sale of iron ore, bauxites and cotton to the final consumer, and from 20 to 40 per cent of the sales of tea, coffee, cacao beans and citrus fruit goes to the developing countries themselves, whereas the rest is appropriated by the transnationals.

The most difficult thing for the newly free countries is to extend the export of their own industrial goods, which can hardly compete with those of the developed capitalist countries.

Moreover, the imperialist states establish high custom tariffs and raise other barriers in the way of industrial products from the developing world.

Take the USA's discriminatory Trade Reform Act of 1975, which introduced tough export quotas for member-countries of regional economic groupings which do not include the USA. In late 1981 the USA raised its customs duties on sugar imports, so putting the economy of Latin American and Caribbean sugar-exporting countries in an extremely grave situation.

Imperialist "aid" in the form of "free" gifts, subsidies and loans plays an important role in neocolonialist strategy. Since the Second World War, such "aid" has exceeded $300 billion. In the past, most of it was provided by the USA, and in recent years the USA has been joined by Britain, the FRG, France and Japan.

Government "Aid" by the Leading Capitalist Powers to the Newly Free Countries ($ million)

	USA	Britain	France	FRG	Japan
1955	2,006	205	647	142	70
1965	3,417	472	752	461	243
1975	4,161	897	2,091	1,689	1,148
1980	7,138	1,780	4,052	3,517	3,303

So why do the imperialist powers give such "aid"? As bourgeois ideologists say, this is being done for the sake of the recipient countries' economic and social development. The facts show, however, that the bulk of the "aid" goes to prop up pro-imperialist regimes, whose task is to police the newly free countries.

Imperialist "aid" does very little to promote the economic development of the newly free countries. It has a different purpose: to help the monopolies get hold of markets and raw-material sources in these countries. It also helps to create a favourable investment climate for the monopolies.

The terms on which "aid" is given usually restrict the sovereignty of the recipient state.

Thus, under an agreement with the Arab Republic of Egypt on a $40 million credit to its government for extending a cement works, the International Bank for Reconstruction and Development (IBRD) was entitled to determine cement prices and ban the construction of any new cement works in the country.

The International Monetary Fund (IMF) operates in a similar neo-colonialist spirit. In the early 1980s, when the Mexican government asked it for a loan to overcome its monetary-financial difficulties, the IMF demanded a wage freeze, and end to capital investments in the state sector in industry, cuts in industrial equipment imports, and complete freedom of action for private capital, local and foreign. As Mexico complied with these demands, its production in 1983 fell by 4 per cent, unemployment increased 2.5-fold, and real wages dropped by 22 per cent. Debt service payments swallowed up more than one-half of its export funds.

So, imperialist "aid" is aimed at keeping the newly free countries within the orbit of exploitation and increasing their dependence on the imperialist powers.

Another way of increasing their economic dependence is to include them in economic state-monopoly groupings, primarily the European Economic Community (EEC), which now includes almost 60 African, Pacific and Caribbean countries. They are given some tariff concessions for raw-material exports, but the monopolies within the grouping enjoy much greater benefits, for they have free access to the natural resources and markets of these countries.

As a result of the difference between export and import prices, discrimination against the developing countries' exports to the developed capitalist states and repatriation of huge profits and interest payments, the newly free states (except for the oil-exporting states) have an enormous trade and payments deficit and a snowballing debt.

It has increased from $9 billion in 1956 to $90 billion in 1972 and to more than $1 trillion in 1987. Annual interest payments alone come to nearly $100 billion. Debt service payments swallow up from 30 to 40 per cent of their export earnings or even more: 41 per cent in Nigeria, 44 per cent in Cameroun, 78 per cent in Côte d'Ivoir, and 94 per cent in Morocco.

The disastrously growing indebtedness of the developing countries exacerbates their grave economic and social problems. In the present conditions, these countries can hardly hope to repay their debts. This is fraught with serious socio-economic and political consequences for international relations. Although the imperialist ruling circles are aware of the danger, their only concern is how to save the present system of their enrichment from the exploitation of the developing nations.

Where is the way out of the debt bondage? The only way is to relax international tensions, bring about disarmaments, sharply reduce the military budgets of all states, including developing states, and establish a new international economic order.

The politiccal liberation of many peoples in Asia, Africa and Latin America paves the way for eliminating their economic backwardness and dependence on imperialism. And the developing countries have been carrying on a persevering struggle against imperialism on every level: starting from constraints on the operation of certain monopolies to measures which affect the whole economy.

One of the main forms of struggle is the demand for a *new international economic order* (NIEO).

Its programme was first debated at the Sixth special session of the UN General Assembly in April 1974. It includes establishment of full national sovereignty over national resources in the whole economy; measures to stabilise fluctuating raw-material prices and to narrow the gap between these and the prices of manufactures; an end to foreign-trade discrimination on the part of the developed capitalist countries; a decrease in the technological lag; measures to ease the financial debt burden and increase the flow of real resources from the developed countries; and control over TNC activities.

The imperialist powers, however, have been resisting the efforts to implement these just demands, for they want to expand their export markets and tighten control over the developing countries' resources and production.

Another obstacle in the way of a new international economic order is the lack of unity among the developing countries and the growing differentiation in their development. Imperialism tries to prevent them from uniting and to sharpen the contradictions between them, which sometimes erupt in armed conflicts.

Development Roads

The newly free countries have been following one of two roads: some of them have taken the revolutionary-democratic road, and others, the capitalist road. The choice of road is heavily influenced by neocolonialist policy.

A number of newly free countries have taken the *capitalist road*. With the emergence of capitalist industry and the formation of a domestic market, there are bound to be definite elements of progress in economic development. At the same time, all the contradictions that are intrinsic to the capitalist mode of production are bound to emerge as well. A national bour-

geoisie takes shape, while the peasants and the petty bourgeoisie can barely make a living, and many of them are ruined. The working people are subjected to ruthless exploitation, and unemployment is on the increase. What makes the situation worse is the country's dependence on imperialism. Naturally, these contradictions tend to sharpen the class struggle, giving it an anti-capitalist, anti-imperialist edge.

There is also a *non-capitalist road* of development.[1] By choosing that road, the economically underdeveloped countries can bypass the capitalist stage and get down to socialist transformations in a short historical period.

Such a road was substantiated by Marxist-Leninist theory and borne out by historical practice. Engels wrote that when a socialist revolution won out in the industrialised countries, the lagging countries would be able to follow their example and "start on this abbreviated process of development".[2]

Lenin did a great deal to elaborate the theory and practice of non-capitalist development. He said at the Second Congress of the Communist International: "It will be mistaken to assume that the backward peoples must inevitably go through the capitalist stage of development... With the aid of the proletariat of the advanced countries, backward countries can go over to the Soviet system and, through certain stages of development, to communism, without having to pass through the capitalist stage."[3]

Consequently, the possibility of non-capitalist development emerges only with a triumphant socialist revolution in a more advanced country, which can give assistance to the economically less developed countries. The idea of non-capitalist development was tested in practice as many peoples of Russia that had been at lower stages of social development went over to socialism. The peoples of Vietnam, Laos and Mongolia have been following the non-capitalist road to socialism.

About twenty developing countries with a population of roughly 180 million have already chosen the socialist orientation.

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[1] Since the ultimate goal of non-capitalist development in the newly free countries of Asia, Africa and Latin America is to build socialism, the term "socialist orientation" is often used alongside the term "non-capitalist road", and the countries that have chosen such a road are known as socialism-oriented countries.

[2] Frederick Engels, "Afterword to the Work, 'On Social Relations in Russia' ", in: Karl Marx and Frederick Engels, *Selected Works* in three volumes, Vol. 2, Progress Publishers, Moscow, 1977, pp. 403, 404.

[3] V.I. Lenin, "The Second Congress of the Communist International, *July 19-August 7, 1920*", *Collected Works*, Vol. 31, 1982, p. 244.

Socialism-oriented development is a very complicated process, which involves an intensive struggle not only against the forces of domestic reaction, but also against the imperialist efforts to divert the young states from that road by any means. Take the systematic provocations and undeclared wars waged by imperialism against Afghanistan, Nicaragua, Angola, Mozambique, Syria, Ethiopia, and other socialism-oriented countries.

The record of these countries shows the characteristic features of the socialist orientation: transition of power to the progressive forces acting in the interests of the masses; an end to imperialism's political rule and an erosion of its economic domination; consolidation of the state (public) and cooperative sectors in the economy, and constraints on the development of the private sector, including nationalisation of foreign monopoly property, profound social transformations (agrarian reforms, removal of social privileges, equal rights for women, etc.); a struggle against imperialist ideology and for an assertion of revolutionary-democratic ideology connected with the world liberation movement, with the theory and practice of scientific socialism. Close and all-round cooperation with the socialist countries is a crucial external condition of non-capitalist development.

The peoples that have taken the non-capitalist road of development have made definite economic progress. Thus, their industry and national income have been growing faster than those of the developed capitalist countries, to say nothing of their own development in the colonial period. But their social gains are particularly impressive.

Progressive Transformations

The *state sector* provides the basis for the economy of socialism-oriented countries. It also performs a major social function as the basis for the formation of the working class, the most consistent force behind the socialist transformations.

In most socialism-oriented countries, the state sector has won strong positions. In the mid-1980s, for instance, it accounted for 90 per cent of industrial production in Algeria, over 80 per cent in Tanzania, and over 60 per cent in the People's Democratic Republic of Yemen and Burma. The state also controls the whole or the bulk of foreign trade, communications, the power industry, and the banking system, and most of internal trade.

In agriculture, cooperatives and state farms have been developing on a large scale. Formation of cooperatives is encouraged by the state, which offers them loans for the purchase of machinery, fertilizers and other means of production.

The assistance of the socialist community countries is highly important for the progressive transformations in the developing countries.

By 1984, 97 developing countries in Asia, Africa and Latin America had built over 3,800 projects with the economic and technical assistance of the CMEA countries. These turn out most of the output in the key industries of these countries. Thus, such projects account for 100 per cent of the oil produced in Syria, 100 per cent of the natural gas and nitrogen fertilizers produced in Afghanistan, and over 70 per cent of the electric power produced in Syria and Afghanistan.

Much is being done by the CMEA countries to help the developing states, socialism-oriented states above all, to organise economic planning and train personnel. In 1983, over 80,000 students from 121 developing countries, including over 3,000 students with CMEA scholarships, were being educated at higher and secondary specialised educational establishments in the CMEA countries, and over 15,000 citizens from 70 developing countries were being given occupational training.

So, the newly free nations can only overcome their economic backwardness and win true independence along the road of struggle against imperialism and capitalism, transition to socialism-oriented development, and joint struggle together with the socialist countries for a new international economic order, for an end to the arms race and cuts in military expenditures.

The socialist countries want to see the growing influence of the newly free countries promote the cause of peace and social progress to an ever greater extent. They build their relations with these countries on the principles of respect for their independence and equality; support their struggle against the imperialist powers' neocolonialist policy, against the remnants of colonialism, for peace and universal security, and have been doing their utmost to help the peoples following the road of progressive transformations in their economic and cultural construction, in training national personnel, in raising their defence capability, and in other fields.

QUESTIONS FOR DISCUSSION

1. What are the causes of the economic backwardness of the newly free countries?
2. What is neocolonialism? What are its goals and the ways of their attainment?

3. What is the role of the international monopolies and international economic organisations of capitalism in implementing neocolonialist policy?

4. What is imperialist government "aid" and why does it fail to promote the economic development of the newly free countries?

5. What are the main features of the socialist orientation? List the countries that have adopted the socialist road of development.

6. What is the role of the socialist countries' economic assistance to the socialism-oriented countries?

Part Two

THE POLITICAL ECONOMY OF SOCIALISM AS THE THEORETICAL BASIS OF THE PARTY'S POLICY

Chapter Nine

THE EMERGENCE AND DEVELOPMENT OF THE SOCIALIST ECONOMY

> Socialism is a society on whose banner are inscribed the words 'Everything for the sake of man, everything for the benefit of man'.
>
> *From the Programme of the Communist Party of the Soviet Union*

The word socialism was first used in an article published in the French journal *Le Globe* in 1834 by the philosopher and journalist Pierre Leroux. That word was to become the slogan of struggle for progress and the name of the new society, a society without exploitation and oppression.

True, the doctrine of socialism was initially utopian. Utopian socialism, Lenin wrote, "criticised capitalist society, it condemned and damned it, it dreamed of its destruction, it had visions of a better order and endeavoured to convince the rich of the immorality of exploitation.

"But utopian socialism could not indicate the real solution. It could not explain the real nature of wage-slavery under capitalism, it could not reveal the laws of capitalist development, or show what *social force* is capable of becoming the creator of a new society."[1]

The theory of scientific socialism and communism was formulated by Marx and Engels. They were the first to prove in scientific terms that the capitalist mode of production was bound to be replaced by another mode, based on social property in the

[1] V.I. Lenin, "The Three Sources and Three Component Parts of Marxism", *Collected Works*, Vol. 19, 1980, p. 27.

means of production. *Socialism, once a utopia, was now a science.* It began to be combined in practice with the revolutionary working-class movement.

Lenin's works marked a new stage in the development of the theory of scientific socialism and communism. In 1917, Lenin and his party of Bolsheviks translated socialism into reality. "*The Great October Socialist Revolution*," says the CPSU Programme, "*became a landmark in world history, determined the general direction and main trends of world development, initiated the irreversible process of the replacement of capitalism by the new, communist socio-economic formation.*"[1]

Socialism has now become the most important revolutionary force in the world. There is no longer any country or group of countries, any ideological or political trend that would not to some extent feel the influence of socialism. Socialism is a living, creative reality for hundreds of millions of people.

In Lenin's lifetime, the road of socialist construction was taken by 7.8 per cent of the world's population, whereas today more than a third of mankind is following this road. The socialist countries have become a powerful force of mankind's development. Socialism is a guiding star for the development of the former colonial countries, it is the banner under which millions of working people in the non-socialist part of the world are carrying on a struggle against oppression and exploitation.

That is why it is so important to understand the general laws of the emergence and development of socialism.

In this chapter, we shall examine the necessity and essence of a period of transition from capitalism to socialism, and Lenin's plan of socialist construction.

1. THE NECESSITY AND ESSENCE OF A PERIOD OF TRANSITION FROM CAPITALISM TO SOCIALISM

The Socialist Revolution as a Law-Governed Form of the Society's Transition from Capitalism to Socialism

Mankind's transition to socialism is a law-governed historical process, prepared by the whole preceding course of social development. Lenin emphasised: "It would be impossible to put an end to the rule of capitalism if the whole course of economic development in the capitalist countries did not lead up to it...

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[1] *The Programme of the Communist Party of the Soviet Union*, p. 8.

No power could destroy capitalism if it were not sapped and undermined by history."[1]

But the replacement of capitalism with socialism cannot occur overnight. *Socialist revolution is the only way of putting an end to capitalism and all forms of exploitation.*

It is common knowledge that the transition from feudalism to capitalism was a period of bourgeois revolutions. The socialist revolution, however, differs radically from all earlier revolutions. What is the difference?

It is that all earlier social revolutions only meant a replacement of one form of private property in the means of production with another, a replacement of the old forms of exploitation with new ones. The socialist revolution abolishes all forms of private property in the means of production and all forms of exploitation.

The feudal and capitalist modes of production are based on private property in the means of production, and are thus of the same type. That is why the capitalist mode of production could spontaneously arise and develop within the entrails of the feudal society, whereas a bourgeois revolution merely entrenched the political rule of the new class once capitalist economic forms had already taken shape.

The socialist mode of production cannot emerge spontaneously within the entrails of capitalism. It emerges and asserts itself only when private capitalist property in the means of production is replaced with social property, and that can be done only when the state power of the bourgeoisie is overthrown and a dictatorship of the proletariat established. Only under that condition can the proletariat concentrate in its own hands the crucial means of production and get down to revolutionary transformations in every sphere of social life. That is why a socialist revolution only begins with the winning of political power by the working class.

The Essence of the Transition Period

The revolutionary transformation of the capitalist society into a socialist one takes a more or less protracted historical period, known as the period of transition from capitalism to socialism.

The basic uniformities of the transition period were first formulated by Marx and Engels and were then developed by

[1] V.I. Lenin, "War and Revolution", *Collected Works*, Vol. 24, 1974, p. 417.

Lenin with due regard for the experience of socialist construction in the USSR. The experience of the Soviet Union and other countries that have taken the road of socialist renewal has made it possible to bring out the general uniformities of the revolutionary transformation of the capitalist society into a socialist one. These include the power of the working people led by the working class; the society's development under the guidance of a communist party equipped with the ideology of scientific socialism; assertion of social property in the basic means of production and, on that basis, balanced growth of the economy in the people's interests; implementation of the principle "From each according to his ability, to each according to his work"; development of socialist democracy; equality and friendship among all nations and nationalities; and defence of revolutionary gains from encroachments by class enemies.

At the same time, the general uniformities of the transition period have different manifestations in different countries, reflecting the concrete historical conditions (internal and external) of each country's development.

The transition period begins at the point when the proletariat wins political power. The state of the dictatorship of the proletariat starts out with socialist nationalisation, taking over the basic means of production from the exploiter classes and converting plants, factories, railways and banks into social (state) property. By concentrating the basic means of production in its own hands, *the dictatorship of the proletariat takes over the commanding heights of the economy.*

The practice of socialist economic transformations shows that, depending on the actual historical conditions, nationalisation can take the form of coercive and uncompensated confiscation of bourgeois property or it may involve a full or partial recompense of capitalist-owned enterprises.

In the USSR, nationalisation was carried out as coercive and total confiscation of the means of production and banks belonging to the big bourgeoisie in a relatively short period. That was necessary in view of the Russian bourgeoisie's fierce struggle against the Soviet power, which developed into a civil war.

In other socialist countries, confiscation of the means of production belonging to the bourgeoisie was combined with diverse forms of recompense.

Landed property was also expropriated in different ways. In the USSR and Mongolia, the whole land was nationalised without recompense and handed over for use to the peasants.

In some other socialist countries, it was only the land of big landed proprietors that was nationalised. A part of it was used to set up state-run farms, while most of it was handed over to the peasants free of charge or for a small compensation.

Sectors and Classes in the Transition Period

Nationalisation of plants, factories, banks and big trading companies leads to the emergence of a socialist sector in the economy.[1] It also includes agricultural, trading, fishing and other cooperatives set up as voluntary associations of small-commodity producers.

The *socialist sector* is the leading sector in the economy of the transition period. It is the economic basis of the dictatorship of the proletariat.

The socialist sector is the highest, socialist type of economic organisation. It rests on social property in the means of production and in the products of labour. That is where socialist relations of production are formed and consolidated, giving free scope to the rapid development of the productive forces. Concentration of the nationalised means of production in the hands of the proletarian state makes it possible to arrange planned and balanced socialist organisation of production.

The proletariat's first step in arranging socialist production is to introduce workers' accounting and control over the production and distribution of goods. Lenin attached exceptional importance to such accounting and control, so that enterprises would in practice serve the interests of the whole society.

In the USSR, workers' control and accounting developed on a large scale. As the workers took part in controlling production at the enterprises, they learned to organise and manage large-scale machine production, gaining experience in management. Workers' control over big enterprises saved these from destruction and plunder, limited the capitalists' subversive activity, and created conditions for new, socialist economic forms.

By the end of the transition period, the socialist sector had become the predominant sector of the economy.

In 1924, it accounted for 76.3 per cent of the USSR's gross industrial output 1.5 per cent of its gross agricultural output, and 47.3 per cent of its retail trade.

[1] An economic sector is a form of social economy with its own type of property in the means of production and specific socio-production relations.

In 1923-1924, 51 per cent of the country's gross output was produced by the *petty-commodity sector*, which included the petty-commodity producers of town and country: peasants and handicraftsmen.

An important place in the economy of the transition period belongs to the *private capitalist sector*, which includes private capitalist enterprises in industry and trade, and kulak (wealthy peasant) farms in agriculture. In 1923-1924, it produced 8.9 per cent of the USSR's gross output.

The socialist, petty-commodity and private capitalist sectors are to be found in the transition-period economy of any country that has taken the road of socialist construction. Alongside these basic sectors, the transition-period economy can also include a state-capitalist and a patriarchal sector.

The *state-capitalist sector* includes state enterprises leased to capitalists, concessions, and mixed state-private enterprises. In 1923-1924, that sector yielded about 3 per cent of the USSR's industrial output. In the GDR and some other socialist countries, that sector was developed on a larger scale in the transition-period economy.

The *patriarchal sector* includes subsistence-type peasant farms. In 1923-1924, it yielded 0.5 per cent of the USSR's gross output. In countries which took the socialist road without going through the capitalist stage of development (like Mongolia or Vietnam), the share of this sector is higher.

Each of the basic economic sectors of the transition period is represented by a corresponding class: the working class, the small and middle peasantry, and the bourgeoisie. The relations between sectors and classes are not free from contradictions and struggle.

The basic contradiction of the period of transition from capitalism to socialism is that between burgeoning socialism, which is still weak, and overthrown capitalism, which has yet to be fully destroyed. Lenin wrote: "Theoretically, there can be no doubt that between capitalism and communism there lies a definite transition period which must combine the features and properties of both these forms of social economy. This transition period has to be a period of struggle between dying capitalism and nascent communism—or, in other words, between capitalism which has been defeated but not destroyed and communism which has been born but is still very feeble."[1]

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[1] V.I. Lenin, "Economics and Politics in the Era of the Dictatorship of the Proletariat", *Collected Works*, Vol. 30, 1977, p. 107.

That proposition is very important, for it shows not only the objective necessity, but also the content and basic contradiction of the transition period.

The *working class*, once an oppressed and exploited class deprived of the means of production, becomes the ruling class in the society. It exercises state power, owns the basic means of production, controls the production and distribution of goods, directs the working peasantry and, suppressing the resistance of the exploiters, builds a new, socialist society.

There is also a radical change in the economic and political status of the *working peasantry*. The socialist revolution emancipates it from all forms of exploitation and oppression. The proletarian state provides the peasants with land and with diverse material assistance in running their farms. Conditions are gradually created for involving them in socialist construction.

The *bourgeoisie* loses both its political power and the basic means of production. In the course of intensive class struggle, the state of the dictatorship of the proletariat puts down the resistance of the overthrown bourgeoisie and hands over its means of production to the people.

2. LENIN'S PLAN FOR SOCIALIST CONSTRUCTION

Socialist construction is a most complicated process. The road to socialism, Lenin said, "will never be straight, it will be incredibly involved".[1] But it was particularly difficult for the Soviet Union, the scene of the world's first triumphant proletarian revolution. Socialist construction in the Soviet Union was also very difficult in view of the country's technological and economic backwardness and the extreme economic dislocation caused by the First World War, the civil war and the foreign intervention.

When the power of the bourgeoisie was overthrown and the crucial means of production were taken over into social, state property, the *tasks of economic construction* became paramount. Even before the October Revolution, Lenin had drawn up a programme of economic measures for building socialism. The programme was later developed in Lenin's post-October

[1] V.I. Lenin, "Extraordinary Seventh Congress of the R.C.P.(B.), *March 6-8, 1918*", *Collected Works*, Vol. 27, 1977, p. 130.

works: "The Immediate Tasks of the Soviet Government", "Economics and Politics in the Era of the Dictatorship of the Proletariat", "A Great Beginning", "On Co-operation", "The Tax in Kind", and others.

Lenin's plan for socialist construction envisaged a renewal of every sphere of social life: development of the productive forces, transformation of the relations of production, and changes in the people's spiritual life. It included the country's industrialisation, socialist transformations in agriculture, a cultural revolution, and a solution of the nationalities question.

Economic Policy in the Transition Period

Lenin's plan for socialist construction began to be implemented right after the establishment of the Soviet power. But its implementation was interrupted by the civil war, started by the enemies of the October Revolution, and the foreign intervention. The Soviet Republic was in the position of a beleaguered fortress. Its material resources were extremely limited, and it was forced to go over to a *policy of "war communism"*. Food requisitioning was introduced, under which all surpluses of farm produce were requisitioned from the peasants to feed the army and the urban population. Free trade was banned.

In the spring of 1921, with the end of the civil war, the Soviet Republic went over to peaceful construction. In the conditions of a multisectoral economy, the state launched a New Economic Policy (NEP). Food requisitioning was replaced with a tax in kind. The peasants were now entitled freely to dispose of the surplus produce that remained after the tax was paid, to sell it or exchange it for manufactures. That gave the peasants an incentive to increase food production and helped to boost agriculture.

The New Economic Policy was meant to rehabilitate the economy, to establish economic links between town and country, to strengthen the alliance between the working class and the peasantry, and to turn Russia into a socialist state.

The central task in that endeavour is to develop the productive forces, primarily to create an advanced large-scale industry. Of course, the first thing to do here is to answer the following questions: what the material and technical basis of socialism is? How does it differ from the material and technical basis of capitalism? Is it necessary for all countries that have taken the road of socialist construction to create the material and technical basis of socialism?

The material and technical basis of socialism consists of highly developed large-scale machine production in every branch of the national economy based on social property in the means of production, organised under a plan on the scale of the whole country and serving the interests of the working people.

Under capitalism, the productive forces can be highly developed. But private property domination makes it impossible to extend large-scale machine production to all branches of the economy and ensure rational distribution of the productive forces on the scale of the whole country. That is why all countries entering upon the socialist road have to build the material and technical basis of socialism. But the amount of work to be done here differs from one country to another depending on the level of their industrial development.

In those countries whose development before the victory of a socialist revolution was inadequate, the building of the material and technical basis of socialism implies the need for industrialisation. In pre-revolutionary Russia, for instance, the share of industry in the country's aggregate industrial and agricultural output was 42.1 per cent, in Poland (before the Second World War) it was 47.7 per cent, in Hungary 42 per cent, in Romania 40.5 per cent, and in Bulgaria 24.8 per cent. These countries had to industrialise, that is, to build up a large-scale machine industry, with heavy industry as its core. That is the only way to provide a groundwork for the industrial development of all the other branches of the economy, for strengthening the socialist forms of production.

Socialist industrialisation differs from capitalist industrialisation in the purpose, sources of funds and social consequences.

The purpose of capitalist industrialisation was to strengthen the rule of capital and intensify the exploitation of wage labour,

whereas the purpose of socialist industrialisation is to create an economic basis for socialism, to raise labour productivity in every branch of the economy, and thus to raise the working people's living standards.

The capitalist countries carried out their industrialisation at the expense of greater exploitation of the working people inside the country and plunder of the economically dependent nations, at the expense of foreign loans, whereas socialist industrialisation is carried out solely with the use of the country's internal resources. The most important of these are the earnings of state enterprises.

In the USSR, industrialisation proceeded at a rapid pace in view of the concrete internal and external conditions at the time. It took the Soviet people a short historical period to eliminate the country's technological and economic backwardness. In 1940, the country's industrial production was 7.7 times as high as in 1913. The Soviet Union became an industrial power.

Socialist industrialisation meant a triumph of the socialist relations of production in industry and helped to increase the size of the working class, to raise its cultural and technical standards, and strengthen its leading role in the society. As for agriculture, petty-commodity peasant farms were still the predominant form.

But socialism cannot rest for a long time on two different economic foundations: large-scale socialist industry and small-scale private farming. After all, small-scale farming cannot ensure the expanded agricultural reproduction. But the latter is imperative in order to raise the material and cultural standards of the peasant masses and to meet the growing requirements of the urban population in food and of industry—in agricultural raw materials. That is why the *socialist transformation of agriculture* is a key element of Lenin's plan for socialist construction.

In the USSR and other socialist countries, agriculture was transformed along two lines. First, state farms were set up on the basis of the confiscated big landed estates. A point to note here is that individual petty-commodity peasant farms prevailed in the agriculture of Russia and most other East European countries that have since taken the road of socialist development and the property of petty-commodity producers should not be expropriated. Lenin wrote on the eve of the October Revolution: "Socialists do not intend to, cannot and will not expropriate the small peasant *even if there is a fully socialist*

revolution".[1] In view of that, the second and major line of the socialist transformation of the countryside was to cooperate peasant farms into large collective farms.

Lenin's ideas on the socialist transformation of the countryside were spelled out in his article "On Co-operation". He listed the main principles of cooperation: 1) voluntary entry into cooperatives; 2) gradual and step-by-step introduction of cooperation, starting from its simplest forms (supply-and-marketing, credit, and eventually production cooperation); 3) all-round material and organisational assistance to the peasantry on the part of the proletarian state; 4) working-class guidance of the socialist transformation of the countryside.

The collectivisation of agriculture marked a defeat for the kulaks, the last exploiter class. With its completion, socialist relations of production took hold in the countryside. Thus, in 1929, only 3.9 per cent of peasant households were involved in agricultural cooperatives, whereas in 1937 the figure was 93 per cent. The collective-farm system in the USSR made it possible to develop agriculture on a modern industrial basis enabling every peasant to take part in socialist construction.

The Cultural Revolution

Socialist industrialisation and collectivisation of agriculture, development of large-scale machine production in every branch of the economy require highly skilled and competent personnel. That is why a cultural revolution, aimed at raising the masses' cultural standards, is an integral part of socialist construction. It unfolds with the development of the productive forces and the rise in the people's living standards.

In the course of the cultural revolution, illiteracy is wiped out, the working people's skill standards rise, the culture of formerly oppressed peoples is developed, the overall cultural level goes up, science advances and its ties with production are strengthened. The cultural revolution in the USSR gave free scope for the development of the working people's creative energies, and a socialist intelligentsia was born. The Marxist-Leninist ideology won the hearts and minds of the Soviet people.

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[1] V.I. Lenin, "The Impending Catastrophe and How to Combat It", *Collected Works*, Vol. 25, 1977, p. 348.

In 1939, 93.8 per cent of the urban population and 84 per cent of the rural population in the 9 to 49 age bracket already knew how to read and write, whereas in pre-revolutionary Russia almost three-quarters of the population were illiterate. The number of graduates employed in the national economy went up from 190,000 in 1913 to 2,401,000 in 1940.

The cultural revolution was also successfully carried out in other socialist countries.

Socialism Built

In the mid-1930s, the Soviet economy was no longer multisectoral: the socialist sector had spread across the whole national economy. In 1937, its share was 99.8 per cent in the country's gross industrial output, and 98.5 per cent in agriculture. Socialist relations of production were asserted in every branch of the economy.

The Soviet Union put an end to national oppression and ensured rapid economic and social progress in the former national outskirts. Fraternal friendship, cooperation and mutual assistance became a norm of life.

The Second World War, the worst war in human history, put the socialist system in the USSR to a grim test. By defeating German fascism, the Soviet Union made the decisive contribution to liberating the European peoples from Nazi slavery and saving the world civilisation.

In a short period, the Soviet Union healed its deep war wounds, markedly strengthened its economic, scientific, technological and defence potential, and consolidated its international positions.

The Great October Socialist Revolution and the successes of socialist construction in the USSR had a powerful impact on mankind's historical development. Socialist revolutions won out in a number of countries of Europe, Asia, and then America. *Socialism, which first became a reality in the USSR, developed into a world system*, and ever new peoples are turning towards the new society.

QUESTIONS FOR DISCUSSION

1. What are the specific features that mark the emergence of the socialist system?
2. What is the essence of the period of transition from capitalism to socialism?

3. What are the main sectors and classes of the transition period?

4. What does building the material and technical basis of socialism mean?

5. Why is cooperation of agriculture necessary for building socialism?

Chapter Ten

SOCIAL PROPERTY IN THE MEANS OF PRODUCTION. THE BASIC ECONOMIC LAW OF SOCIALISM

> The foundation of the economic system of the USSR is socialist ownership of the means of production... The supreme goal of social production under socialism is the fullest possible satisfaction of the people's growing material, and cultural and intellectual requirements.
>
> *From the Constitution of the Union of Soviet Socialist Republics*

Socialist property in the means of production underlies all the advantages of socialism over capitalism and all the economic and social achievements of the socialist countries.

Socialist property has a rich content. It includes a multifaceted system of relations between people, collectives, industries and regions of the country in the use of the means and results of production. That complex system of relations has to be harmonised and constantly regulated, especially since it is in motion. That is why we begin studying the economic system of socialism with its relations of property in the means of production. All the problems to be examined in this section are, in effect, connected with social property.

In this chapter, we shall look at social property in the means of production as the basis of the socialist economic system, the system of economic laws of socialism, and the basic economic law of socialism.

1. SOCIAL PROPERTY IN THE MEANS OF PRODUCTION AS THE BASIS OF THE SOCIALIST ECONOMIC SYSTEM

It is highly important to realise that socialist property in the means of production is the foundation of the socialist society, the basis of its economic system. To understand that system, we should first of all find out the meaning of socialist property.

Property in the means of production is the social relations between people with regard to the appropriation of the means of production and the material values created with these. Social property in the means of production implies that all members of the society are co-owners of the means of production and use these in the interests of the whole society and each of its members.

Under social property in the means of production, the working people in all spheres of the economy are both workers and co-owners of the means of production. They seek to make rational and efficient use of material resources and keep perfecting the instruments and objects of labour so as to increase production and meet their material and spiritual requirements to an ever fuller extent.

Two Forms of Social Property

Social property in the means of production under socialism takes two main forms: state (the whole people's) property and collective-farm and other cooperative property.

State (the whole people's) property is the asset of the whole people. The citizens of every socialist country are equal co-owners of the means of production, which are at the disposal of the socialist state representing the whole people.

In the USSR, state property includes the land, the subsoil, the forests and waters, and also the country's plants, factories, mines, state farms, land-improvement stations, transport and communication facilities, banks, the property of commercial, communal and other enterprises set up by the state, the basic housing facilities in the cities, and so on. In the USSR and Mongolia, land is the property of the state, whereas in other socialist countries much of the farmland is the property of cooperatives or individual farmers.

State property (the whole people's property) embraces crucial means of production, which play the decisive role in developing the economy of each socialist country. Thus, over 90 per cent of the USSR's aggregate product is produced at state enterprises.

Alongside state (the whole people's) property in the USSR, there is also *collective-farm and other cooperative property.* The means of production constituting the property of collective farms—tractors, harvesters and other farm machines, cattle, premises, etc.—belong to the members of the collective farm. The land held by the collective farms is secured to them for

their free use in perpetuity. All the output produced belongs to the collective farm, which sells grain, meat, milk and other farm produce to the state under a certain plan and at plan prices.

In 1985, for example, the USSR had 26,000 collective farms, which cultivated about 44 per cent of all the area under crop and accounted for 89 per cent of the total production of sugar beet, 66 per cent of the raw cotton, 50 per cent of the grain, 30 per cent of the wool, 39 per cent of the milk, 26 per cent of the meat, 24 per cent of the vegetables, and 21 per cent of the potatoes produced in the country.

The two forms of social property are *of the same type*, for both of these have a socialist character. Both rule out man's exploitation by man and are geared to meet the interests of the society and each of its members. The activity both of state enterprises and of collective-farm and other cooperative enterprises is meant to satisfy the people's requirements to an ever fuller extent.

The *property of trade union and other social organisations* which they require to fulfil their statutory tasks is also socialist property.

Personal Property Under Socialism

Personal property expresses the economic relations in the appropriation by individual members of the society of material values which go to meet their personal requirements. Such property differs radically from private property. It is the means of production which are the main object of private property, whereas personal property includes articles of individual or family consumption. The former makes it possible to exploit other people's labour, whereas the latter is meant solely for personal consumption.

With the development of socialist production, the people's personal needs are met to an ever fuller extent, and the range of personal property is extended. Alongside the prime necessities (clothes, furniture, etc.), it includes various other consumer goods and durables (TV and radio sets, washing machines, vacuum cleaners, refrigerators, cars, etc.). In the USSR, personal property constitutes roughly one-fifth of the country's national wealth.

Personal subsidiary farms are a special form of personal property. The collective farmer and members of his family work on their farm in order to produce additional output for

personal consumption and for sale of the surpluses on the collective-farm market.

In 1985, the USSR had over 35 million personal subsidiary farms owned by collective farmers, workers, office personnel and other citizens living in the countryside. The total land at their disposal was 8.1 million hectares. Apart from that, 5.6 million families of industrial and office workers in urban areas had plots in collective gardens, and roughly as many in vegetable gardens, with a total area of 750,000 hectares.

In 1985, personal subsidiary farms in the USSR accounted for 60 per cent of all the potatoes grown in the country, 29 per cent of the vegetables, and 28-29 per cent of the meat, milk and eggs.

Personal subsidiary farms, collective gardens and vegetable gardens are an important source of food production, ensuring fuller and more rational use of local resources.

The socialist state helps the owners of personal subsidiary farms to buy fertilizers, feed and stock, and allocates meadows and pastures.

Personal property under socialism is closely tied in with social property. It is based on earned income from social production.

The Role of Socialist Property in the Economy

Replacement of private property with social property in the means of production resolves the antagonistic contradiction between the social character of the production process and the private capitalist appropriation of its results. And this gives free scope to the dynamic and balanced development of the productive forces, to socio-economic progress.

With the establishment of social property in the means of production, there is a radical change in the *goal of social production*. Since the means of production belong to all members of the society, the goal of production is no longer to enrich some of them at the expense of the others, but to meet the material and spiritual requirements of all the working people.

The predominance of social property in the means of production ensures full employment of the able-bodied population, making labour universal.

Socialist property determines the *new character of labour in the society*. Labour under socialism is free from exploitation. That is why the individual works for himself and for his society. Socialism engenders unprecedented incentives to work and a new labour discipline. "For the first time after centuries of

working for others, of forced labour for the exploiter, it has become possible to *work for oneself* and moreover to employ all the achievements of modern technology and culture in one's work."[1]

Labour in social production and its results determine the individual's status in the society. Consumer values are distributed in accordance with the socialist principle: "From each according to his ability, to each according to his work."

The predominance of social property creates an objective possibility and necessity of *planned and balanced economic development under socialism.* And that ensures the best conditions for developing the productive forces, applying scientific and technological achievements, and raising production efficiency.

Social property engenders *relations of collectivism, comradely cooperation and mutual assistance* unknown to capitalism. Nation-wide socialist emulation shows that very well. The undivided sway of socialist property in the means of production destroys the economic roots of social and national oppression and ensures the masses' involvement in running production, social and state affairs.

So, whatever economic processes we look at, their content and development under socialism is determined by social property in the means of production. That is why such property is the basis of the socialist economic system.

The Development of Socialist Property

Social property in the means of production removes the antagonistic contradiction between the productive forces and the relations of production intrinsic to capitalism. But the productive forces and the relations of production are always interconnected and act upon each other.

Under socialism, the law of correspondence of the relations of production with the character and level of the productive forces acquires a special content, distinct from earlier socio-economic formations. It implies, first and foremost, that the means of production constituting the whole people's common property are used to meet the diverse needs of all members of the society to the fullest possible extent. The objective non-

[1] V.I. Lenin, "How to Organise Competition?", *Collected Works*, Vol. 26, 1977, p. 407.

antagonistic contradictions that emerge under socialism in the course of the interaction between the productive forces and the relations of production are duly resolved through state economic policy, primarily through an improvement of the forms and methods of economic administration and management, and fuller and more consistent use of the economic laws governing distribution, exchange and consumption.

The main line in the development of socialist property in the means of production is to increase the role of the whole people's property. That is done by raising the socialisation level in material production, the latter's concentration, specialisation and cooperation, stronger links between the various elements of the national economy, improving the distribution of the product and involving the working people in economic planning and production management.

Another major line in the development of socialist property is to improve the collective-farm and cooperative form of property. That is mainly done through specialisation and concentration of agricultural production, interfarm cooperation and agro-industrial integration. In the agro-industrial complex, as we shall see later, there is vigorous interaction of the two forms of socialist property, with the state form exerting an ever greater influence on the collective-farm and cooperative form. This creates opportunities for the latter's development, for bringing the two main forms of property closer together and erasing the essential distinctions between town and country. The 1988 Law on Cooperatives opened the way to the creation of a large cooperative sector and extensive application of diverse forms of cooperation in every sphere of the national economy.

The 19th CPSU Conference noted that contracting and leasing have been introduced to restructure labour and intra-production relations, allowing the advantages of social property to be harmonised with personal interest, a sense of mastership and civic self-realisation. The development of individual labour activity has been noticeably spurred.

Efforts to augment socialist property are at the heart of the work being done by the communist parties of the socialist countries to develop their economies. At the same time, there are still many facts indicating mismanagement of the means of production, waste of material resources, and misuse of social property for selfish purposes. That is why each working person and work collective should protect and augment socialist property. The measures being taken to perfect production man-

agement and the remuneration of labour, and the drive against unearned income should serve that purpose.

2. THE SYSTEM OF ECONOMIC LAWS UNDER SOCIALISM

The Content of Economic Laws

The predominance of social property in the means of production under socialism eliminates the specific economic laws of capitalism and engenders specific economic laws of socialism: the basic economic law of socialism, the law of proportional and balanced economic development, the law of distribution according to work, the law of socialist accumulation, etc.

At the same time, general economic laws (like the law of correspondence between the relations of production and the character and level of the productive forces, the law of rising labour productivity, the law of economy of time, the law of rising requirements, etc.) continue to operate in the socialist economy. Since commodity-money relations remain under socialism, it also retains such economic laws as the law of value, the law of money circulation, and the law of supply and demand.

All these laws are closely interconnected and interact with each other, constituting the *system of the economic laws of socialism.*

The decisive role here belongs to the *basic economic law of socialism.* Since it determines the goal of socialist production and the means for its attainment, it is pivotal to the whole system of economic laws under socialism. All the other economic laws of socialism in a sense "service" the basic law.

Take the general law of raising labour productivity. Both under capitalism and under socialism, the main methods of boosting labour productivity are those of improving production machinery and technology, raising the working people's skill standards, and perfecting job and production engineering. Both under socialism and under capitalism, raising labour productivity leads to cuts in production costs and to higher output.

But since the means of production under capitalism are owned by the capitalists, the output produced belongs to them as well. And the higher the labour productivity, the higher is the degree of the exploitation of the working class, the higher profits of the monopolies. So, the law of raising labour productivity in this

instance serves to ensure the goal of capitalist production: to extract maximum profit for the capitalists.

Under socialism, with its social property in the means of production, all the output produced belongs to the working people and is used for their social and personal needs. The higher the labour productivity and the lower the production costs, the larger is the social product and the fuller is the satisfaction of the people's material and cultural requirements. So, the law of rising labour productivity in this instance "services" the basic economic law of socialism.

Similarly, the law of value under socialism has an essentially different content. Under capitalism, it mediates the appropriation of maximum profit and, consequently, "caters" for the basic economic law of capitalism, whereas under socialism the law of value is used to compare individual labour inputs with the socially necessary labour inputs, to take due account of the latter on the scale of the enterprise, the economic sector or the whole national economy, and to determine the amount of the working person's remuneration in accordance with the quantity and quality of his work. In the final count, the law of value is used by the socialist society to improve qualitative and quantitative indicators in production and is thus aimed at raising economic efficiency and ensuring fuller realisation of the basic economic law.

Cognition and Use of Economic Laws

The economic laws of socialism are objective. They operate independently of human will and consciousness. But people are not powerless in the face of these laws, for they can cognize and use them in their own interests. *Cognition of economic laws is a major task of political economy, and also a prerequisite for their use in socialist construction.*

On the basis of a knowledge of economic laws and the specifics of their operation in different historical conditions, the socialist state elaborates an *economic policy*, determining the goals of the country's socio-economic development, and the ways and means of their attainment. The fuller the account being taken of objective economic laws in practical activity, the more successful is the development of the socialist economy and the faster is the rise of the people's living standards.

An all-round study of the experience of socialist economic activity is of great importance for a deeper understanding of the essence of economic laws and the mechanism of their operation.

In practice, economic laws manifest themselves in different forms. Thus, the law of distribution according to work is expressed in concrete forms and systems of wages, bonuses, etc. The law of economy of time manifests itself in labour productivity growth, a decline in the material intensity of products, etc.

Under socialism, the forms in which economic laws are manifested are also the forms of their conscious use. Thus, in establishing correct, scientifically substantiated prices, we are making conscious use of the law of value. And in seeking to organise remuneration that would correspond to the quantity and quality of the actual labour inputs, we are making fuller use of the law of distribution according to work. With due regard for economic laws, the state, its economic agencies, and work collectives at each stage of economic development elaborate and apply the most efficient forms and methods of planned economic management.

Economic Interests Under Socialism

Economic interests under socialism express the material needs of the society's members conditioned by the socialist relations of production. *They are the main economic motives, the main incentives to work.*

Under private property in the means of production, the capitalists are interested in maximising profit through the exploitation of wage labour. Their interests are at odds with those of most working people. In order to change the economic interests, it is necessary to restructure the relations of production.

The assertion of socialist property in the means of production removed the antagonistic contradiction between the interests of the main classes, and established *the unity of the economic interests of all members of the society.* This unity reflects the relations of comradely cooperation and mutual assistance in the process of joint labour and is a crucial factor in the development of the productive forces. It promotes efficient economic activity on a national scale in the interests of the people's well-being.

The system of economic interests under socialism includes the whole people's, collective and personal interests. *The whole people's interests* play the leading role. They are the fundamental interests of all members of the society and signify that all working people are interested in steady development of

production, rational use of material and labour resources, and higher quality of output.

It is highly important to understand the leading role of the whole people's interests. To ensure their priority is to combat local and departmental narrow-mindedness and irresponsibility in economic decision-making, to harmonise the whole people's interests with those of the collective, and subordinate the latter to the former.

Collective interests express the material requirements of individual work collectives. The peculiarities of collective interests are due to the economic conditions in which enterprises and their units operate. Each collective is interested in attaining the best production results and in the corresponding remuneration.

Alongside the whole people's and work collective interests, there are also *personal interests*, which express the personal needs of the working person and his family. Harmonisation of each individual's personal interests with those of the work collective is a necessary condition of the successful operation of the enterprise.

But the unity of economic interests under socialism does not mean that they fully coincide or that they are free from non-antagonistic contradictions. Thus, some work collectives seek to produce output that is profitable only for them, without due regard for the whole people's interests. Some workers try to get as much as possible from the society, while giving it as little as possible. Naturally, that harms the national economy. But the crucial principle of socialist economic activity, of all conscious activity by the co-owners of the means of production is this: "What is good for the society is good for the work collective and for each of its members."

The non-antagonistic contradictions that arise between economic interests are resolved by the socialist state through a constant improvement of the economic and organisational conditions of production, paying much attention to the system of indicators which are used to assess the performance of the work collective and each of its members.

The Economic Role of the Socialist State

The socialist state plays an immense role in economic development. The CPSU Programme says: "Established as a result of the socialist revolution, the dictatorship of the proletariat played a decisive role in creating the new society, and in the

process it, too, underwent changes. With the abolition of the exploiter classes the function of suppressing the resistance of the overthrown exploiters gradually faded away and full scope was given to accomplishing its foremost, constructive tasks."[1] And the most important of these constructive tasks is to develop the economy.

The economic role of the socialist state is fundamentally different from that of the bourgeois state. The latter's economic activity is confined to protection of capitalist property and its increase through greater exploitation of the working people.

The socialist state is the owner of the decisive means of production, thus expressing the interests of the working class and all the other working people, that is, of the whole population. Its efforts are aimed at improving the people's well-being. For the first time in history the state ceases to be a parasitic apparatus standing over and above the production process and begins to function as the actual organiser of the whole of social production.

The economic role of the socialist state is realised in its economic and organisational activity. It organises the whole process of socialist expanded reproduction. It determines the volume and structure of material production, capital investments and trade; projects the lines of the development of the various sectors of the national economy and sets the pace of their development; organises the balanced distribution and use of the national income; ensures the country's involvement in international economic cooperation, etc.

The socialist state elaborates an economic development strategy and runs the economy on the basis of a plan. The main principle in running the economy as a single whole is democratic centralism, which makes it possible to harmonise the interests of the society, work collectives and individual citizens.

3. THE BASIC ECONOMIC LAW OF SOCIALISM

The Content of the Basic Economic Law of Socialism

Each socio-economic formation has its basic economic law, which expresses the inner essence of the production relations peculiar to that mode of production. And that essence is deter-

[1] *The Programme of the Communist Party of the Soviet Union*, pp. 48, 49.

mined by the predominant type of property in the means of production. Under capitalism, for instance, the means of production belong to the capitalists, so that production is carried on in their interests and its supreme goal is to extract surplus-value.

Under socialism, with its social property in the means of production and the working people's common interests, the development of the national economy is geared to satisfy the requirements of the society's members. Lenin kept emphasising that planned and balanced organisation of social production under socialism is necessary to ensure "*full* well-being and free, *all-round* development for *all* the members of society".[1]

The only way to meet the growing requirements of the society's members is to ensure steady growth and improvement of socialist production, to keep raising its efficiency by applying the latest machinery and technology, to raise labour productivity and improve the quality of output. That is why the content of the basic economic law of socialism is *to ensure the full well-being and the free and all-round development of all members of the society through a steady boosting and improvement of social production.*

The basic economic law of socialism is the law of the movement of socialist production. It expresses the supreme goal and direction of the development of socialist production, operates as the major motive force of socio-economic progress, and predetermines the main interconnections of all the other economic laws, gearing these to the supreme goal of socialist economic activity.

The Requirements of the Socialist Society

To ensure the people's well-being, it is first of all necessary to determine the society's requirements. These include personal and production requirements.

Personal requirements are satisfied by means of consumer goods and services. They can be satisfied either individually or jointly, that is, either through individual consumption of goods and services by each member of the society (food, housing, various consumer goods, etc.) or through joint consumption (services provided by public health, education, cultural and other institutions).

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[1] V.I. Lenin, "Notes on Plekhanov's Second Draft Programme", *Collected Works*, Vol. 6, 1977, p. 52.

Production requirements are the society's requirements for the means of production. These should be satisfied so as to develop the national economy and tackle the practical tasks of improving the people's working conditions and living standards.

There is a close interconnection between production and requirements. As production develops, social requirements increase, and new requirements for means of production and articles of consumption are engendered. But having emerged in production, they influence its development and serve to accelerate scientific and technical progress and to apply its achievements in the economy.

The development of new instruments of labour, which boost labour productivity, leads to structural changes in production and serves to develop the forms of its organisation. That ensures economic growth and fuller satisfaction of consumer requirements.

Requirements change with the society's development. The socialist society helps to form and develop reasonable, rational requirements, which are in accord with the working people's socialist way of life and spiritual culture.

The Supreme Goal of the Party's Economic Policy

The supreme goal of the economic policy of communist and workers' parties is always the people's well-being. Different stages of socialist construction offer different opportunities for realising that goal. In the USSR, for instance, these opportunities were limited in the period of transition from capitalism to socialism, during the Great Patriotic War and postwar economic rehabilitation. But even in these difficult periods the Soviet state did its utmost to improve the people's well-being.

At the present stage of development in the USSR, the operation of the basic economic law has greater scope and is marked by a number of specific features as compared with the preceding stage. Real opportunities have been created for a fuller satisfaction of the people's material and cultural needs than ever before. The connection between the goal of social production and the means of its attainment tends to tighten.

Fulfilment of the programme task of all-round perfection of socialism in the USSR through an acceleration of socio-economic development, as formulated by the 27th Congress of the CPSU, implies not only qualitative changes in the machinery and technology of production, but also greater social and labour

activity on the part of the people, since use of the results of the ongoing scientific and technological revolution (STR) and conscious involvement in the production process and in running social affairs require a great deal of specialist knowledge and wide general culture. And that largely depends on the working people's living standars. That is why improvement of the Soviet people's well-being and creation of conditions for the development of the individual, while being the *supreme goal of social production*, is also an important means of attaining that supreme goal. That is one of the great advantages of socialism.

The present level of the Soviet economy makes it possible to increase the share of resources going to meet the people's material and cultural needs, and also to create conditions for the all-round and harmonious development of the individual. Every Soviet citizen has ever more opportunities to increase his knowledge, develop his creative abilities, use these in practice, and so to take a more active part in economic and socio-political life. That is a necessary condition for the further economic and social progress of the Soviet society.

From 1940 to 1985, the real per head incomes of industrial and office workers increased 4.5 times, and those of collective farmers, 8 times.

In the 11th five-year period (1981-1985), direct allocations from the national income for an improvement of the people's well-being totalled 1.9 trillion roubles, or 300 billion roubles more than in the period of 1976-1980. The average wages of industrial and office workers went up by 13 per cent, and payment for work on collective farms, by 29 per cent. The country's social consumption funds increased by 25 per cent. About 552 million square metres of dwelling space was built throughout the country, the pension system and the health service were improved, and assistance to families with children was markedly increased.

At the same time, the fulfilment of the 11th five-year plan reflected the adverse tendencies that came to light in the development of the Soviet economy in the 1970s and the early 1980s. The targets of the five-year plan were not met in full, and that influenced the solution of a number of social problems. The 27th Congress of the CPSU formulated important and complicated tasks aimed at a qualitative transformation of the productive forces, acceleration of socio-economic development, and attainment on that basis of higher living standards for the people.

The goal of socialist production and the means for its attainment are closely interconnected and interact with each other.

Full well-being of the socialist society's members is attained through steady growth and improvement of production. But how does one attain production growth? First of all, by developing the individual's physical and mental abilities, raising his skill standards, and fostering a creative, conscientious attitude to work. All of that leads to an improvement of machinery, technology and production organisation, and eventually to higher labour productivity and production efficiency, to a growth of material and spiritual values. And that, in turn, helps to improve the people's well-being and promotes the all-round development of their physical and mental abilities.

QUESTIONS FOR DISCUSSION

1. How is the leading role of state (the whole people's) property in the means of production manifested?
2. How does personal property under socialism differ from private property?
3. How are economic laws applied under socialism?
4. What is the essence of the basic economic law of socialism?
5. What is the supreme goal of the economic policy of communist and workers' parties?

Chapter Eleven

INTENSIFYING AND ACCELERATING ECONOMIC DEVELOPMENT

> The task set by the Party to accelerate the social and economic development of the country calls for profound changes primarily in the decisive sphere of human activity—the economy. A sharp turn is to be made towards the intensification of production; every enterprise and every sector is to be reoriented towards the utmost and top-priority use of qualitative factors of economic growth.
>
> *From the Programme of the Communist Party of the Soviet Union*

The 27th Congress of the CPSU adopted a large-scale programme for raising the Soviet people's living standards, a programme of profound changes in the sphere of labour and daily life. By the year 2000, the people's real incomes are to go up by 60-80 per cent and social consumption funds are roughly to double; virtually every Soviet family is to be provided with a separate flat or a house of its own, a system of measures is to be implemented to protect and strengthen the people's health, to boost education and culture, and to improve rest and recreation facilities for all categories of the population.

Over these years, the country's production potential is to double and be renewed in qualitative terms, i.e., the potential to be created in three five-year periods should equal that created over the preceding 70 years (1917-1987). Considering that the number of employed in the sphere of material production will not be increased, it is clear that the only way to meet all these targets is to increase labour productivity through all-round intensification of production and its higher efficiency. The CPSU has elaborated a strategic line for accelerating the country's development. By the year 2000, the national income is to be doubled and social labour productivity is to go up 2.3-2.5 times.

What is the essence of the strategy for accelerating socio-economic development, and why is it necessary? What are the main ways of implementing it?

In this chapter, we shall examine issues pertaining to the extensive and intensive ways of development; the strategy of acceleration; labour productivity growth; efficient use of technology; economies as a source of production growth; higher quality of output; acceleration of scientific and technical progress, the human factor, and an improvement of the relations of production.

1. THE EXTENSIVE AND INTENSIVE WAYS OF DEVELOPMENT

Two Spheres of Social Production

The sphere of material production is the decisive sphere of social life. That is where material wealth is created, the basis of the well-being of all people, both those employed in that sphere and in the non-production sphere.[1]

In the socialist countries, the sphere of material production includes industry, agriculture, forestry, construction, freight transport, communications servicing production, trade, public catering, material and technical supplies and marketing, procurements and personal subsidiary farming.

There is a close interconnection between the two spheres of the economy. The higher the development level of the production sphere and labour productivity in it, the greater the resources the society can allocate to the development of the non-production sphere. On the other hand, the higher the development level of the non-production sphere and its efficiency (the system of education and training of personnel, public health, cultural and everyday services), the higher is the productivity of social labour and the country's economic development. As the socialist society develops, the share of those employed in the non-production sphere tends to grow.

The labour of the working people employed in the sphere of material production is regarded as productive labour, while labour which does not take part in the creation of material values is not productive. But, like productive labour, it is socially useful and is necessary for the development of the socialist society, helping to raise the efficiency of aggregate social

[1] The non-production sphere includes housing and the public utilities; non-production types of everyday services; passenger transport; communications that service the population and non-production branches; public health, physical culture, and social security; public education, culture and the arts; science and scientific services; state administration and social organisations.

labour. Thus, the labour of a teacher does not create any material values, but develops human abilities.

The boundaries between the two spheres of social production and also between productive and non-productive labour are mobile.

This is especially true now, under the current scientific and technical revolution, when science becomes a direct productive force and when the labour of research workers tends to become ever more productive.

Necessary and Surplus Labour

Under socialism, the antagonism between the necessary and the surplus product disappears together with man's exploitation by man. The material production workers' personal consumption funds distributed according to work in the form of wages and remuneration paid out to members of cooperatives (collective farmers), are the main form of the necessary product. Another form of the necessary product is the part of the social consumption funds that goes to meet the requirements of workers in material production and members of their family, and also the incomes from personal subsidiary farms and garden plots.

The surplus product includes the part of the value of the newly created product (or national income) that goes to ensure expanded reproduction, to set up insurance and reserve funds, and to finance the non-production sphere.

The ratio of the surplus product to the necessary product is known as the rate of the surplus product. In contrast to the rate of surplus-value, it shows the efficiency of living labour inputs, but not the degree of exploitation of wage labour, as it does under capitalism.

Two Ways of Increasing Production

There are two ways of increasing the production of any type of output. First, by increasing the number of workers and machines, production units (on the same technical level), extending the area under crop, increasing the cattle population, and so on. Second, by raising the working people's skill standards, introducing new technology, boosting labour productivity, saving raw and other materials, raising crop yields and productivity in livestock farming. The first way is called extensive, and the second, intensive. In the first instance, growth is

attained at the expense of quantitative factors, and in the second, at the expense of qualitative ones.

The efficiency of social production shows the latter's results. It is determined as the ratio of the national income (or net output) to all production expenditures.

Intensification of production and the drive to raise its efficiency are closely intertwined. The purpose of the two is to ensure faster growth of returns as compared with expenditures. But there is also a distinction between them: intensification of production is an instrument for ensuring higher efficiency, while the latter is a result of intensification and a condition of its further development.

The socialist economy has always developed, as the following table shows, with the use of both ways of increasing production.

Industrial Production in the USSR

Five-year periods	Sources of growth	
	Higher labour productivity	Larger labour force
First (1928-1932)	51	49
Second (1933-1937)	79	21
War years and fourth five-year period (1941-1950)	69	31
Fifth (1951-1955)	68	32
Sixth (1956-1960)	72	28
Seventh (1961-1965)	62	38
Eighth (1966-1970)	73	27
Ninth (1971-1975)	84	16
Tenth (1976-1980)	75	25
Eleventh (1981-1985)	90	10
Twelfth, plan (1986-1990)	100	—

For the first time in Soviet economic history, virtually the whole increase in the national income and the social product in the 12th five-year period is to result from higher labour productivity.

Nevertheless, the type of economic development in the USSR is still largely extensive. The point is that labour productivity

growth still goes hand in hand with a rise in the assets-output ratio,[1] which has an adverse effect on production efficiency.

So, in order to go over to a largely intensive type of growth, it is necessary not only to raise labour productivity, but also to reduce the assets-output ratio and the material intensity of production.

2. ACCELERATION STRATEGY

Socialism Means High Growth Rates

High and steady economic growth rates have always been a major advantage of socialism over capitalism. Here are some figures for the past quarter-century.

Industrial Growth Rates in Socialist and Non-Socialist Countries

	The world	Socialist countries	Developed capitalist countries
1960=1			
1970	1.9	2.0	1.8
1980	3.0	4.1	2.4
1985	3.5	5.3	2.6
Average annual growth rates (per cent) for			
1961-1985	5.1	6.9	3.9
1971-1985	4.2	6.6	2.7
1981-1985	3.2	5.5	1.8

The table shows that the economy of the socialist countries has been developing much faster than that of the capitalist countries. In 25 years, industrial production in the developed capitalist countries increased 2.6 times, and in the socialist countries, 5.3 times.

As it was noted at the 27th Congress of the CPSU, the Soviet Union's successes in the past quarter-century are most impressive. Its fixed production assets have multiplied 7 times, its national income 4 times, industrial production 5 times, and agricultural production 1.7 times.

[1] The assets-output ratio is the value of fixed production assets per unit of output produced.

In the 1970s and early 1980s, however, the country's economic growth rates markedly declined. Thus, average annual growth of the gross social product fell from 6.3 per cent in the ninth five-year period to 3.6 per cent in the eleventh five-year period. Average annual growth of the national income was 5.7 per cent and 3.6 per cent respectively, and of industrial output, 7.4 and 3.7 per cent. On the whole, average annual growth of industrial production in the CMEA countries declined from 6.6 per cent in the period between 1961 and 1984 to 3.4 per cent between 1981 and 1985.

There was also a marked slowdown in the growth of the national income and labour productivity in the USSR. In 1982, industrial production growth rates were down by one-third as compared with the average for the 10th five-year period. As a result, the country's economic development targets were not met, and the social programme was not carried out in full, with lags in the development of the material basis of science, education, public health, and cultural and everyday services.

The main causes of such a state of affairs were brought out and analysed at the 27th Congress of the CPSU. They consisted in a failure to realise in due time the imperative need to switch the economy to intensive methods of development and make active use of scientific and technical achievements.

The economy continued to develop under its own momentum on a largely extensive basis, being oriented towards involvement in production of additional labour and material resources. Hence the serious decline in labour productivity growth rates and other efficiency indicators.

The task facing the USSR was to overcome these adverse tendencies and effect a radical improvement.

The Essence and Necessity of the Strategy for Accelerating Economic Development

Acceleration of socio-economic development primarily means higher economic growth rates. At the same time, as the 27th Congress of the CPSU emphasised, it is not confined to higher growth rates, but implies a new quality of growth: all-round intensification of production on the basis of scientific and technical progress, economic restructuring, efficient forms of management, better labour organisation and work incentives, and invigoration of the human factor. Unless the economy attains a new quality of growth, it cannot develop as it is required

now. In other words, the necessity of an acceleration strategy is dictated by objective economic laws.

Such a strategy is all the more necessary in view of the concrete situation that took shape in the Soviet economy in the past few five-year periods: slower production growth rates, their lagging behind the people's growing requirements and the relations of production falling behind the development of the productive forces. The current forms of production relations, the country's administration and management system mostly took shape in the conditions of extensive economic development. They gradually became obsolete, acting as a brake upon development. So, acceleration of socio-economic development in the USSR is primarily due to the need to close the gap between the productive forces and the relations of production, between socialism's immense potentialities and their insufficient use in practice.

The need to accelerate economic development is also due to external factors, to the intensifying contest between capitalism and socialism. The country is forced to make sizeable outlays on defence. The attainment of military-strategic parity between the USSR and the USA was of great significance. The Soviet Union has been and will continue doing its utmost to stop the arms race, advance to mutual disarmament, and reduce military expenditures. But in the face of imperialism's aggressive policy and threats, it is obliged to strengthen its defence capability so as to prevent any military superiority over itself.

The need for acceleration is also dictated by the country's tasks in the world revolutionary process. The Soviet Union has been and remains an embodiment of man's age-old social aspirations. It should also set an example of the highest economic organisation and efficiency.

Finally, socio-economic development should be accelerated in view of the need to ensure the country's total economic independence from the capitalist countries, in the strategic areas above all.

What makes acceleration even more urgent is that the developed capitalist countries have long taken the road of intensive development.

Today, many values are being reappraised. The USSR has an immense economic and production potential. It has the world's largest fleet of machine tools, the most numerous working class, the largest number of engineers, and one-quarter of the world's researchers. But the country produces 20 per

cent less industrial output than the USA, and its national income is smaller by one-third. Per unit of the national income, the USSR spends more energy, raw materials and other resources than the developed capitalist countries. It has immense natural resources, but these are not limitless. Moreover, their extraction has been shifting ever farther to the East and North of the country, where it is necessary to build towns, roads and other elements of the infrastructure. All of that costs a great deal.

So, once again, what is the essence of acceleration? As the term itself shows, it means faster economic growth. But its essence is a new quality of growth, with the centre of attention being switched from quantitative indicators to quality and efficiency, from intermediate to final results, from an extension of production assets to their renewal, from greater production of fuel and raw-material resources to their better use, to faster development of high technology industries, better organisation of labour, and more effective incentives to work. Structural changes both within and between the various sectors of the economy are to play an important role in the acceleration.

The Resolution adopted by the 27th Congress on the CPSU Central Committee's Political Report says: "The Party's strategic course is to effect a transition to a more highly organised and more effective economy with comprehensively developed productive forces, mature socialist production relations, and a smoothrunning economic mechanism."[1]

3. LABOUR PRODUCTIVITY GROWTH: THE CRUCIAL FACTOR

Raising labour productivity is the crucial factor of economic growth. Labour productivity is the efficiency of concrete labour, and is measured by the quantity of use-values produced per unit of time.

Socialism has demonstrated its indisputable advantages in labour productivity growth rates. Thus, from 1950 to 1984, labour productivity in industry went up 6 times in the USSR, 7.6 times in Bulgaria, 4.9 times in Hungary, 7.2 times in the GDR, 6.2 times in Poland, 11 times in Romania, and 5.5 times in Czechoslovakia, while in the developed capitalist countries

[1] Mikhail Gorbachev, *Political Report of the CPSU Central Committee to the 27th Party Congress*, p. 137.

(with the exception of Japan) its growth was 30 to 50 per cent slower.

At the same time, the task of raising labour productivity has been and remains a highly imperative one. Why is that so? First, without its solution it is impossible to solve our socio-economic problems, to develop the economy and raise the people's living standards; second, because the socialist countries have yet to reach the labour productivity level of the most developed capitalist countries, and third, because in the 1970s and early 1980s labour productivity growth rates in the Soviet Union markedly slowed down.

Labour productivity in Soviet industry was under 30 per cent of that of the USA in 1950, 44 per cent in 1960, roughly 53 per cent in 1970, and over 55 per cent in 1980 and 1984. Labour productivity in Soviet agriculture (average for 1966-1984) was about 20-25 per cent of the US level. In the decade from 1950 to 1960, the gap narrowed by 14 percentage points, from 1960 to 1970, by 9 points, from 1970 to 1980, by only 2 points, and in the period from 1981 to 1984, it remained the same. The main reason behind the slowdown in the narrowing of the gap is the decline in labour productivity growth rates in the Soviet Union. That is why the thing to do now is to boost labour productivity. By the year 2000, it is to go up 2.3-2.5 times.

A major instrument in raising labo r productivity is scientific and technical progress: mechanisation and automation of production, introduction of new machinery and technology, and development of the rationalisation and invention movement. It is also very important to improve production and job engineering, specialisation and cooperation of production, planning and economic incentives, international socialist division of labour and so on.

Finally, labour productivity is determined by a whole complex of socio-psychological factors, including the working person's skills, his working and living conditions, development of socialist emulation, and so on.

4. MORE EFFICIENT USE OF MACHINERY

One of the main factors in intensifying production and raising its efficiency and thus also in accelerating development is to improve the use of machinery and capital investments. Better use of machinery means not only higher labour productivity, but also immense economies in material resources. As machinery is sophisticated, it tends to become more expensive, so that its efficient use is even more important.

The output-assets ratio is a synthetic indicator of the efficiency of the use of fixed production assets. It shows the amount of output (or, for the whole national economy, the national income) produced per unit of the value of fixed assets. Clearly, the higher the output-assets ratio, the more efficient is the use of the fixed assets. What are the factors that serve to raise the output-assets ratio?

The most important of these are: a rise in the scientific and technical level of production, longer operation time and optimal loading of machinery and equipment.

The most important factor here is the rise in the scientific and technical level of production, that is, a steady improvement of machinery and technology, rationalisation of production.

To increase the output-assets ratio, it is necessary to maximise the per day operating time of machinery and equipment, to introduce new machinery as fast as possible, reduce the amount of excess capacity, and increase the shift coefficient.[1] In industries with a continuous production cycle (metallurgy, oil production and refining, etc.), equipment usually operates round the clock. The shift coefficient is usually high in the textile industry. As for engineering, its machinery and equipment (which makes up a large share of the country's total machinery and equipment) operates on average no more than 10-11 hours a day.

Much could also be done to increase the output-assets ratio by eliminating unscheduled downtime. The thing to do here is to provide each workplace with sufficient raw materials and components, to strengthen labour and technological discipline, and introduce the team form of and payment for work.

The operating time of machinery and equipment could be increased by reducing their repair time, lengthening periods between overhauls, and ensuring optimal loading of machinery and operating areas.

A major factor in raising social labour productivity (and, consequently, production efficiency) is to increase the efficiency of capital investments, to reduce the share of construction-in-progress in the annual volume of capital investments, and to concentrate material, financial and labour resources primarily on the renovation and technical re-equipment of existing enterprises and on new high-tech projects.

[1] The shift coefficient is the ratio of the number of machine shifts worked in 24 hours to the overall number of machine tools (machines) at the enterprise, in the workshop or production unit.

5. ECONOMIES AS A SOURCE OF GROWTH

Economies in material resources are among the most important factors in intensifying socialist production, raising its effiency, and accelerating the country's socio-economic development. In the USSR, for instance, the value of all objects of labour comes to nearly 60 per cent of the total value of the gross social product, and in industry, to three-quarters of the total inputs.

An economy drive is particularly important for a number of reasons. First, raw-material expenditures have reached a vast scale: in 1985, the value of the raw materials used in 24 hours exceeded 1.5 billion roubles. Second, raw-material reserves are far from inexhaustible. And third, a lot of raw materials are still being wasted. In the USSR, raw-material and energy inputs per unit of the national income are higher than in the developed capitalist countries.

The need to save raw materials is all the greater in view of the worsening conditions of their production, with transportation costs growing even faster than the costs of extraction.

6. HIGHER QUALITY OF OUTPUT

One of the major lines in accelerating socio-economic development, intensifying production and raising its efficiency is to improve product quality.

High quality helps to increase labour productivity and the output-assets ratio, to reduce material intensity, and meet social and personal needs to the fullest possible extent.

Both producers and consumers are interested in raising product quality. High quality means fuller satisfaction of the people's requirements. It helps to accelerate scientific and technical progress and to raise production efficiency. The country's export potentialities grow accordingly.

Producers in the socialist countries are offered a whole complex of incentives to improve the quality of output and produce essentially new types of machinery and equipment, diverse technical facilities, and consumer goods.

Thus, in the course of economic restructuring in the USSR, a set of measures is being introduced to improve the quality of output. Top-quality output is entitled to a 30 per cent wholesale price mark-up, while associations and enterprises turning out low-quality output have to pay a penalty out of their profits, which reduces their economic incentive funds.

To ensure product quality and control the activity of associations and enterprises in matters of product quality, a special non-departmental control body has been set up under the USSR State Committee for Standards, which has come to be known as state quality acceptance.

Associations, enterprises, workshops and production units are setting up quality control groups as a form of the working people's active involvement in the quality drive. Working teams bear collective responsibility for the output of low-quality goods and compensate the losses from the team's earnings, which are distributed with due regard for the actual responsibility of individual members. Teams which turn out high-quality output are awarded the title of "high-quality team" and are entitled to use a team quality brand. Such teams are also entitled to a higher remuneration.

Moreover, steps are being taken to increase material responsibility for damage done to the enterprises by the employees who produce low-quality output, who by negligence spoil or destroy materials, finished articles, semi-manufactures or other products.

By way of additional inducements, the work collectives of production and science-production associations, enterprises, R&D organisations, etc., are awarded USSR state prizes for outstanding achievements in the radical improvement of the quality of products that are of crucial importance for the national economy, and also 15,000 to 20,000 rouble prizes of the USSR Council of Ministers for stable production of high-quality output.

The customer is entitled to cancel a contract with his supplier unilaterally if the latter repeatedly supplies the former with inferior products. In such an event, the supplier must stop or suspend the output of such products and compensate the customer for the damage done by the cancellation of the contract.

Socialist emulation plays an important role in raising product quality.

7. FASTER SCIENTIFIC AND TECHNICAL PROGRESS

Scientific and technical progress (STP) is the basis for intensifying and accelerating development and raising the efficiency of socialist production. Without STP, one cannot imagine radical labour productivity growth, a rise in the output-

assets ratio, greater economies in material resources, or higher product quality.

Present-day world practice has long gone over to rapid renewal of machinery and equipment, which are being fully replaced within 10 to 12 years or even less. The situation is different in many industries of some socialist countries. In the USSR, for instance, the replacement rate for machinery and equipment in industry in the mid-1980s was 2-2.5 per cent. One can easily estimate how many decades it will take to renew all the machinery and equipment with such a rate of replacement, whereas essentially new technologies appear every 12-13 years, and in some industries even sooner.

For many years now, the output-assets ratio in Soviet industry has been declining, the number of new job openings has been growing rapidly, while production is being mechanised at a slow pace. In 1985, about 50 million people were still engaged in manual labour: one-third of all workers in industry, more than one-half in construction, and three-quarters in agriculture.

As a result of the wear and tear of production facilities, the sphere of repairs has swelled inordinately. In 1984, 35 billion roubles and almost one-fifth of all ferrous metals were used for repairs throughout the national economy. Repair shops employ 6 million workers, with one-quarter of all the country's machine tools.

At present a radical modernisation of the nation's engineering industry has begun. It will play a key role in accelerating scientific and technological progress and in restructuring the entire national economy.

8. THE HUMAN FACTOR AND IMPROVEMENT OF PRODUCTION RELATIONS

Faster scientific and technical progress is an important instrument in accelerating the growth of socialist production. But it would be wrong to reduce the whole problem to the material factors of production alone. It is people who develop science and create machinery and technology, it is their will, energy, ability and concern that determine the speed of scientific and technical progress, the efficiency of the use of new machinery and technology, economies in raw and other materials, and product quality, that is, the whole mechanism of intensification, faster development and rising production efficiency. Lenin's idea that "*the primary productive force of human*

society as a whole is the workers, the working people"[1] is just as relevant as in the past.

One may ask: doesn't that contradict the proposition that the relations of production are the main factor in the development of the productive forces? That is a very serious question, and we shall deal with it in detail. The answer here is no, it does not. True, the development of the relations of production is the main motive force of economic progress. But what are the relations of production? They are economic relations between people. Consequently, man's decisive role in the development of production is due to the fact that he is both the subject of the relations of production and the chief productive force.

So, in order to invigorate the human factor, it is necessary to improve the relations of production so as to give every working person the maximum incentive to honest and highly efficient work. Of course, the efforts to envigorate the human factor, to develop the chief productive force are not confined to material incentives alone, but presuppose a steady development of human abilities, improvement of the character of labour itself, formation of modern economic thinking, and use of moral incentives, that is, an improvement of the whole system of social relations, production relations above all. That is why in the following chapters we shall take a closer look at matters of improving production relations and the economic mechanism under socialism, and their influence on the human factor, on the socialist countries' socio-economic development.

QUESTIONS FOR DISCUSSION

1. What factors determine the production process?
2. What is the essential distinction between productive labour under socialism and productive labour under capitalism?
3. What are the differences between the extensive and intensive ways of economic growth?
4. Why is it necessary to accelerate the USSR's socio-economic development?
5. How does one measure production efficiency?
6. What are the main ways and means of raising labour productivity and the output-assets ratio, and of reducing material intensity?

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[1] V.I. Lenin, "First All-Russia Congress on Adult Education, *May 6-19, 1919*", *Collected Works*, Vol. 19, 1977, p. 364.

Chapter Twelve

PLANNED AND BALANCED DEVELOPMENT OF THE SOCIALIST ECONOMY

> Economic planning is a major scientific and social achievement of the 20th century and the revolutionary practice of social transformations.
>
> *From the CPSU Central Committee's Resolution "On the 50th Anniversary of the First Five-Year Plan for the Economic Development of the USSR"*

Economic planning is a key instrument in implementing the advantages of the socialist economy. The successes of socio-economic development largely depend on correct planning, on the vigorous involvement of work collectives, of the working masses in planning activity. That is why a study of the law of planned and balanced development, of its essence, and the forms and methods of its use in practice is a necessary condition for elaborating a correct, scientifically substantiated socio-economic policy, for efficient development of socialist production, and realisation of its advantages over capitalism.

In this chapter, we shall examine planned and balanced development as the main advantage of socialism, the law of balanced, proportionate development, and socialist economic planning.

1. PLANNED AND BALANCED DEVELOPMENT AS THE MAIN ADVANTAGE OF SOCIALISM

Modern production implies a multitude of enterprises, turning out the most diverse products. The Soviet Union alone, for instance, produces about 24 million concrete types of output, including about 300,000 types of machinery and equipment. Each enterprise is closely tied in with many others. This means that the economy is permeated with numerous economic ties, which tend to develop and become more complicated as the economy develops, the social division of labour deepens,

and new products emerge. That is why if production is to function normally, there should be conscious regulation of the numerous and complicated ties among its component parts.

The need to regulate production on the national scale exists under capitalism as well. It is engendered by the social division of labour, which reaches a particularly high level under large-scale machine production. Lenin wrote: "Large-scale machine industry, unlike the preceding stages, imperatively calls for the planned regulation of production and public control over it...".[1]

Under capitalism, too, production is organised within the framework of each enterprise, whose management determines in advance the volume of output, the product mix, the amount of raw and other materials and fuels necessary for production, the manpower required for each workshop and production unit, and the marketing strategy. Why then do we say that the planned and balanced way of production is a characteristic feature and great advantage of socialist economic development?

Under capitalism, private property in the means of production reigns supreme. This means that each capitalist is his own master. He is guided solely by his own interests and takes risks in order to obtain as much profit as possible. There is fierce rivalry among the capitalists. And wherever there is rivalry without common interests and goals, there can be no concerted action on the scale of the whole economy. Consequently, economic development cannot be planned. *Private property is the barrier that makes it impossible to run the economy from a single centre.* Even state regulation does not rule out the anarchy of the capitalist economy.

Socialism eliminates private property in the means of production, and thus also the invisible barriers that separated one enterprise from another and contrasted one class with another. All enterprises are now units of one and the same socialist economy. They operate under a single national economic plan.

By eliminating class antagonisms and rivalry, social property in the means of production harmonises the vital interests of individual workers, work collectives and the society as a whole, gearing production to a common goal. Planned and balanced economic development is now possible, as well as necessary. *It is a crucial objective economic law of socialism and its main advantage over capitalism.* This makes it possible to direct the development of the socialist economy with confidence, steering clear of crises and unemployment, to coordinate the develop-

[1] V.I. Lenin, "The Development of Capitalism in Russia", *Collected Works*, Vol. 3, 1977, p. 544.

ment of its various sectors and regions, to ensure its stability and dynamism, and to inspire confidence in the future.

2. THE LAW OF BALANCED, PROPORTIONATE DEVELOPMENT

The Content of the Law

The economic law that expresses the objective necessity and possibility of balancing out the development of the whole economy, that is, conscious regulation of socialist production, is the law of balanced, proportionate development.

Its main feature is that the most important economic proportions in the national economy arising in the process of the production, distribution, exchange and consumption of material values not only should, but also can be brought out in advance and envisaged in a comprehensive national economic plan.

Among the numerous connections and interdependencies that exist in the huge and complex economic organism of the socialist society, it is particularly important to bring out and maintain the necessary proportions (quantitative correlations) between the development rates of diverse industries and regions, and between the production volumes of different types of output.

Proportionality is necessary in any society with social division of labour. Thus, if it takes 1.5 tons of iron ore and 0.7 tons of coke to produce 1 ton of pig iron, this determines the proportions between the three industries. Such proportions also exist between the number of cars to be manufactured and the output of rolled metal for these, between the production of machine tools and metal, etc. These are technico-economic proportions, but there are also more complicated ones: between the amount of goods to be marketed and the money supply necessary to mediate the exchange, or between the output of producers' goods and consumer goods. Certain proportions are also necessary in distributing producers' goods and labour-power among the various industries and regions.

Under capitalism, such proportionality is attained spontaneously, through competition, price fluctuations and overproduction. It is being constantly upset and then restored with the use of coercive methods: through crises, ruin of enterprises, destruction of output, and unemployment. Social property in the means of production under socialism makes it possible to determine in advance the society's main requirements and available resources, to distribute social labour in the necessary pro-

portions among the various sectors and regions, and then to keep up these proportions.

The law of balanced, proportionate development is connected with all the other economic laws, primarily the *basic economic law of socialism*. This connection implies that all the country's requirements both for producers' goods and for consumer goods and the possibilities of satisfying these are determined in a planned manner, and that planned and balanced organisation of production is the most effective instrument in realising the basic economic law of socialism.

The connection between the law of balanced, proportionate development and the *law of value* is that the distribution of the social labour among the various industries influences the formation of the socially necessary labour inputs. If the society allocates more labour and means of production to a certain industry than it requires, a part of its output will be superfluous. Consequently, the labour spent on its production will have been wasted. And the other way round: the magnitude of the socially necessary inputs affects intersectoral and intrasectoral proportions, so that the production of relatively expensive types of output can be replaced with lower-cost types.

The law of balanced, proportionate development is also closely tied in with the *law of economy of time*, for planned and balanced development creates prerequisites for reducing labour inputs into the production of material values.

The Basic Proportions of the National Economy

It is not an easy task to maintain the correct proportions. The difficulty lies in the great number of proportions and their constant movement, which is dictated by the overall development of production, changing requirements, the need for faster growth in some particular industries, sectors, regions, etc.

The most important types of proportions are: *macro-economic*, or reproduction proportions (between production, distribution, exchange and consumption, between the production of producers' goods and consumer goods; between the consumption fund and the accumulation fund; between the population's incomes and the supply of goods and services; etc.); *intersectoral* (between industry and agriculture, between extractive and manufacturing industries); *intrasectoral* (between the production of coal, oil and gas in the extractive industries, etc); and *territorial* (between the various territorial units in the country's economy).

All types of proportions are closely interconnected and interact with each other. This shows that the law of balanced, proportionate development embraces all the structural elements of the economy.

It is particularly important to ensure the optimal proportions in economic development in our day, when the interconnections between enterprises, industries and regions are much more complicated than before, when economic activity is increasingly oriented towards an all-out improvement of the people's well-being, when all the socialist countries are going over to the road of intensive development, and when there is a growing need to make intelligent use of economic laws.

3. SOCIALIST ECONOMIC PLANNING

Socialist economic planning is the main instrument in the conscious use of the economic laws of socialism. Socialist planning goes back to Lenin. Under his leadership, the world's first long-term national economic plan, known as the GOELRO plan (which stands for "State Plan for the Electrification of Russia"), was drawn up in the USSR. It set important targets for the development of the national economy, its technical re-equipment, and a comprehensive solution of the country's grave economic and social problems. The plan was intended for 10 to 15 years and envisaged a 80-100 per cent increase in industrial production over 1913, and an increase of 13-14 times over 1920. The GOELRO plan was fulfilled ahead of schedule.

The subsequent experience of socialist construction in the USSR showed that the optimal period for long-term planning was five years. So, the five-year plan became the main form of planning.

The first five-year plan for the development of the USSR's national economy (1928-1932) was fulfilled ahead of schedule. In 1932, industrial production more than doubled as compared with 1928. As the Soviet economy charged forward, capitalism was in the grip of its worst-ever global economic crisis (1929-1933), when production in the leading capitalist countries was almost halved, world capitalist trade shrank to one-third, and the army of unemployed in the USA swelled to almost 17 million. The first five-year period was followed by other remarkable five-year periods, which raised the USSR from industrial and economic backwardness to the heights of economic and social progress.

The Soviet five-year periods are stages on the way to fulfilling the majestic task formulated by Lenin in the early days of the first socialist state: "As we begin socialist reforms, we

must have a clear conception of the goal towards which these reforms are in the final analysis directed, that is, the creation of a communist society...".[1] The Soviet Union's outstanding successes in economic development are the result of its planned and balanced organisation of production.

The USSR's experience in planned economic development is recognised throughout the world. Other socialist states have adopted the planning principle as well. Economic cooperation and integration of the CMEA countries are developing on a planned basis. The developing countries take an ever greater interest in the Soviet and international experience of planned economic management. It has also been recognised by many economists in the developed capitalist countries.

The Principles of Planning

The essence of socialist economic planning is expressed in its principles. Economic and social development plans are drawn up on the basis of a theoretical analysis and conscious assessment of the demands of the objective economic laws of socialism. That is why the first and most general principle of planning is its *scientific character.*

Any plan—long-term or annual, covering the whole national economy or a single enterprise—should be scientifically substantiated, with a knowledge of the system of economic laws under socialism. Thus, the basic economic law orients plans towards a solution of social problems and an improvement of the people's well-being; the law of economy of time dictates the need for boosting production efficiency; the law of distribution according to work is taken into account in the planned distribution of the national income and in the field of remuneration, and the law of value—in price formation and economic calculus (*khozraschyot*).[2]

A major principle of planning is the *principle of the party approach.* This principle derives from Lenin's doctrine of an indissoluble bond between economics and politics, priority of politics over economics, and a political approach to the solution of economic problems.[3] In practice, this principle means that any economic matter should primarily be tackled from the

[1] V.I. Lenin, "Extraordinary Seventh Congress of the R.C.P.(B.), *March 6-8, 1918*", *Collected Works*, Vol. 27, 1977, p. 127.

[2] Otherwise known as profit-and-loss accounting, self-supporting (self-financing) system (principles), etc.—*Ed.*

[3] See, V.I. Lenin, "The Trade Unions, the Present Situation and Trotsky's Mistakes", *Collected Works*, Vol. 32, 1977, pp. 83, 84.

standpoint of the whole state rather than local or departmental interests; that personal and collective interests should not be contrasted with those of the whole state, and that breaches of state planning discipline, contractual obligations, etc., should not be allowed.

Another major principle of planning is the *social orientation of plans*, that is, their orientation towards the final national economic results. After all, production is not carried on for the sake of production, but in order to meet the needs of the society and every individual, to ensure the full well-being and all-round development of all members of the society. Such is the ultimate purpose of the whole system of planning.

An important principle of planning is its *comprehensive nature*. Planning should have both sectoral and territorial dimensions, coordinating economic and social development and harmonising the interests of the working individual, the enterprise and the state.

The *principle of democratic centralism* plays a very important role in planning. It calls for a blend of centralism (the leading element) in planning with the working masses' initiative and vigorous involvement in drawing up and implementing plans. For the first time in history, democratic centralism gives free scope for the initiative of the masses, for their involvement in planning. The forms in which centralism is combined with broader rights for the enterprises and other local units depend on the concrete conditions and the tasks to be tackled in each historical period.

Among the principles of planning is the *principle of directiveness*. The plan is a law and its fulfilment is binding. The harmonious functioning of the whole national economy can only be ensured if each production unit fulfils its plan. That is why the national economic plan is approved by the country's supreme organ of state power. Planned and balanced development also requires nationwide accounting and control of plan fulfilment, and observance of state planning discipline.

With the emergence of the world socialist system and especially with the deepening of socialist economic integration, *combination of national and international interests* has become an important principle of planning.

The System of Plans

On the strength of the experience of socialist economic activity in the USSR and other socialist community countries, a

harmonious system of plans has taken shape in these countries, envisaging a flexible and efficient combination of long-term and current plans. In the USSR, it includes a comprehensive 20-year programme for scientific and technical progress, guidelines for the country's economic and social development for 10-15 years ahead, five-year economic and social development plans, and annual plans.

The Comprehensive Programme for Scientific and Technical Progress is drawn up by the USSR Academy of Sciences, the USSR State Committee for Science and Technology, and the USSR State Building Committee for a period of 20 years, broken up into five-year periods. The Programme generalises scientific forecasts of the main trends in the development of science, technology and production and in the country's social development. In order to make the planning realistic and offer the country a constant long-term perspective of economic growth, every five years the Programme is adjusted and extended for another five years.

In accordance with the tasks set by the Communist Party's long-term socio-economic policy and the Comprehensive Programme for Scientific and Technical Progress, the USSR State Planning Committee (Gosplan) together with Union ministries and departments and the councils of ministers of the Union Republics draws up guidelines for the economic and social development of the USSR for 10-15 years. In accordance with the Guidelines, which are broken up into five-year periods, Gosplan sets control figures for the five-year period ahead; on the basis of these figures, five-year economic and social development plans are drawn up.

The five-year plan is the main form of planning economic and social development. It provides the basis for organising the economic activity of the various industries, associations and enterprises.

Here is how the five-year plan is drawn up. First of all, Gosplan sets control figures for the five-year period on the basis of the draft Guidelines for the country's economic and social development. The Union ministries and councils of ministers of the Union Republics put these figures before the enterprises and organisations. In accordance with the control figures, each enterprise and association compiles a draft five-year plan of its own. On the basis of these drafts, the ministries and councils of ministers compile draft five-year plans for each sector and republic, and these are then used by Gosplan to elaborate and put before the government a draft state five-year plan for the country's economic and social development, broken up into annual plans. Once the five-year plan is adopted by a session of the Supreme Soviet, the highest organ of state power, it becomes a law whose fulfilment is binding. It serves as a basis for the final elaboration of the plan for the republics, sectors, regions and enterprises.

For the day-to-day running of the economy at every level, *current (annual) plans* are drawn up. Since the 11th five-year period (1981-1985), annual plans in the USSR are first drafted by the enterprises and associations. This enables the work collective to display initiative and draw up their own

plans (so-called counter-plans), which are included in the annual plan.

Planning Methods

Balanced regulation of production is achieved through a system of scientific planning methods, which makes it possible to draw up plan that gives a correct reflection of reality and the requirements of economic development.

First of all, the plan should coordinate the development of the various components and aspects of the economy. This means that the plan itself should constitute a harmonious, monolithic whole. The *balance method of planning* is one of the most important methods used to coordinate and balance out the various component parts of the country's economic and social development plan.

In practice, planners use a system of balances which includes material, value (financial) and labour balances.

Material balances are the simplest type of balances. Take the country's fuel and energy balance.

The USSR's Fuel and Energy Balance in 1983
(in equivalent fuel, million tons)

Resources		Distribution	
Residues at the beginning of the year	205.8	Expenditures Including:	1,775.1
Production (extraction) of fuel	2,036.2	for the production of electric and thermal power and compressed air	799.8
Production of hydroelectric power	22.1		
Imports	29.6	for production, technological and other purposes	975.3
Other resources	58.2		
		Exports	358.7
Total	2,351.9	Residues at year-end	218.1
		Total	2,351.9

At first glance, the balance may appear to be quite simple. But in order to determine only one figure, say, that of expenditures (1,775.1 million tons), one should know the needs of all the country's production and other enterprises, including the use of fuel and energy for everyday purposes. If it turns out that the available resources are inadequate to meet the needs, one should look for additional resources, which could be obtained either through cuts in unit inputs (say, the inputs of fuel oil per 1,000 kwh of electric power) or through imports. But in order to import some types of output, it is necessary to export some other types of output.

In drawing up annual plans, Gosplan now works out material balances for more than 2,000 major types of industrial and agricultural output.

The country's *value balances* include the state budget, the foreign trade balance, the balance of the population's money incomes and expenditures, and so on.

The *labour balance* shows the connection between the able-bodied population and the country's requirements for labour-power.

There is also an intersectoral balance and a balance of the USSR national economy.

In the present conditions, the *normative method of planning* is ever more important. To understand its essence, let us recall that requirements themselves depend on expenditures (say, the fuel requirements for the production of 1 kwh of electric power, 1 ton of steel, etc.). These expenditures are known as *unit inputs*. Planned unit inputs, scientifically substantiated and approved, are regarded as *normative*. These are used to determine the requirements of the enterprise, the sector, and the country as a whole. That is why planning on the basis of scientifically substantiated normatives, oriented towards the latest scientific and technological achievements and progressive economic experience, helps to make more efficient use of material, financial and labour resources.

Over the past few years, the *target-oriented method of planning is being developed on an ever larger scale*. In other words, *target-oriented comprehensive programmes* are being drawn up for the solution of the most important problems. There are socio-economic, production-economic, scientific and technological, territorial, ecological, and economic-organisation programmes. In the USSR, for instance, there is the Food Programme, the Energy Programme, the comprehensive programme for the development of the production of consumer

goods and services, the programme for the economic development of the Baikal-Amur Railway zone, and the programme for reducing manual labour in the economy. The purpose of a target-oriented comprehensive programme is to concentrate the efforts of diverse industries and departments, and also central and local administrative bodies on the solution of some important economic problems. These programmes specify the conditions and resources necessary for their solution, and also the economic organisations and fulfilment deadlines.

Economico-mathematical modelling is an important method of planning. Before drawing up a detailed plan for the development of some industry, it is necessary to make a preliminary "sketch", a model of the plan with the use of econometrics.

Use of economico-mathematical methods of planning calls for modern technical facilities. Computers help to process information, elaborate many variants of the plan, and find optimal solutions. Large computer centres have been set up under Gosplan and other central economic departments, under the planning and economic organs of the Union Republics, and at many enterprises and establishments. Steps are being taken to set up a nationwide automatic data collecting and processing system for economic accounting, planning and management.

Improvement of Planning

Planned and balanced development of the economy is one of socialism's decisive advantages. All the successes of the socialist economy are connected with economic planning, and its future achievements will depend on the quality of planning. That is why the restructuring that is under way in the USSR involves an improvement of planning. The CPSU Programme says: "The Party considers it necessary to raise the efficiency of *planning* as an instrument for carrying out its economic policy. Planning should be an effective lever for accelerating the social and economic development of the country, for intensifying production on the basis of scientific and technical progress, implementing progressive economic decisions and ensuring balanced and dynamic economic growth."[1]

Economic planning is increasingly oriented towards the attainment of ever higher final results, towards the realisation of the supreme goal of the CPSU's economic policy. Such is the purpose not only of large-scale economic programmes, like

[1] *The Programme of the Communist Party of the Soviet Union*, p. 37.

the Food Programme or the comprehensive programme for the development of the production of consumer goods and services, but also of the whole planning system, from the prognostication of requirements to the adoption of production targets for each enterprise, collective or state farm. That is also the purpose of the measures being taken to improve the economic mechanism, including those to gear production to consumer demand, in particular, by including in production plans only those types and volumes of output for which contracts have been signed.

Plans are increasingly oriented towards faster scientific and technical progress, with an integration of plans for production and for scientific and technical progress. The plan for the development of new technology has a decisive influence on all the indicators of economic and social development. It is pivotal to the whole national economic plan.

Steps are being taken to balance out plans and make radical improvements in their normative basis. Any changes in the plans of enterprises create difficulties in production both for the suppliers and the consumers of their output. That is one of the causes of partial disproportions and plan imbalances, which slow down economic growth. Economic norms (rates) are very important for balancing out plans. Some of these change very rapidly with the development of science and technology, while others (such as normative wages per rouble of net product, deductions for incentives funds, or plan targets for the procurement of farm produce) remain stable, inducing enterprises to increase production and improve product quality. Economically substantiated norms are now particularly important. Work collectives and every working person should be interested in tapping economic reserves and improving product quality.

Harmonisation of sectoral and territorial planning and specific comprehensive programmes are meant to raise economic efficiency and accelerate development.

Further development of democratic centralism could do a great deal to raise economic efficiency and improve planning. The CPSU has taken the line of extending the rights and responsibilities of the enterprises while increasing the role of the central planning bodies.

An objective demand now is to increase the role of the enterprise, the main production unit, in planning and in the whole economic mechanism. That is where the country's social and economic development plans are being realised and where the individual displays his creative initiative.

The forms of social activity by the masses in the USSR are

diverse: the working people take part in production meetings, team and team-leaders' councils, people's control bodies, scientific and technical societies, in the work of party, Soviet, trade union and Komsomol organs, and voice their views through the press, radio and television.

Wide opportunities for the development of the masses' creative activity and self-management are offered by the Law on Work Collectives and their growing role in running enterprises and organisations, adopted by the USSR Supreme Soviet. The law entitles the work collectives to take part in drawing up and discussing long-term and current economic and social development plans, to hear reports by the management on the course of their fulfilment, to take part through social organisations in the appointment of top executives, and adopt decisions on collective agreements, on the construction of housing, children's institutions and other social projects from the corresponding funds of their enterprise.

Development of the masses' creative initiative in the socialist countries is the key to the solution of their economic, scientific, technological and social problems.

QUESTIONS FOR DISCUSSION

1. What determines the need for the planned and balanced development of the socialist economy?
2. What is the advantage of the planned socialist economy over the spontaneous capitalist economy?
3. What is the essence of the law of balanced, proportionate development?
4. What are the main principles of planning?
5. What are the methods used in planning?
6. What are the main lines of improving economic planning in the USSR?

Chapter Thirteen

COMMODITY-MONEY RELATIONS AND THEIR USE TO ACCELERATE SOCIO-ECONOMIC DEVELOPMENT

> To raise production efficiency and improve distribution, exchange and consumption it is important to use commodity-money relations more fully, in conformity with the new content inherent in them under socialism.
>
> *From the Programme of the Communist Party of the Soviet Union*

Commodity-money relations play an important role in the system of production relations of socialism, and the latter's improvement is bound to include an improvement of the former. In this chapter, we shall examine the necessity and essence of commodity-money relations under socialism; money in the socialist economy; the law of value and its use in socialist construction.

1. THE NECESSITY AND ESSENCE OF COMMODITY-MONEY RELATIONS UNDER SOCIALISM

The question of commodity-money relations has been among the most controversial questions in the political economy of socialism. In the early 1920s, some Soviet economists declared that money was a thing of the past. But money still exists everywhere and will continue to exist for a long time to come. Moreover, its importance has now even increased.

Why Do Commodity-Money Relations Exist Under Socialism?

As we saw in Chapter Two, commodity production originated on the basis of the social division of labour and for a long time developed under private property in the means of production.

But it continues to exist under socialism as well, where private property in the means of production is eliminated.

Their existence under socialism is due to the specific features of the socialist stage in the socialisation of production. In order to advance, the society should know how to achieve maximum production efficiency. With that aim in view, it should calculate the production costs of any product. And that cannot be done directly in terms of working hours owing to the marked distinctions between the enterprises and industries in technical level, skill standards and labour intensity, but can only be done with the help of money.

Labour under socialism has not as yet become the individual's paramount vital need. It remains a source of livelihood and requires material incentives, while the main form of distribution according to work is the money form (wages).

Under socialism, the enterprises remain relatively detached from each other in economic terms. This detachment is essentially distinct from the detachment of capitalist enterprises, which are actually separated from each other by private property in the means of production and can only enter into mutual relations through the market. As for socialist state enterprises, these are closely tied in with each other by social property in the means of production, by planned and balanced economic development. Each of them operates in accordance with the basic economic law of socialism. The relative economic detachment of the socialist enterprise means that socially owned producers' goods are put at its disposal, being assigned to it in accordance with the right of ownership, disposal and use. In realising the whole people's property, the collectives of the enterprises carry on their own production process and are responsible to the society for the safety, efficient use and reproduction of the producers' goods assigned to them.

Finally, commodity relations are necessary to maintain external economic ties.

Fundamental Distinctions Between Commodity-Money Relations Under Socialism and Under Capitalism

The production and marketing of goods under socialism are fundamentally different from those under capitalism. First, since private property has been replaced with social property in the means of production, labour-power cannot be sold or bought. Moreover, the commodities produced are no longer capital and cannot be used for exploitation in contrast to capitalism.

Second, commodity production under socialism is planned and balanced, and labour has a direct social character. That is why the society determines in advance what kind of output and how much of it is to be produced, to whom it is to be sold and at what price. Planned and balanced development under socialism rules out anarchy and overproduction crises.

Third, commodity-money relations under socialism are not universal: not only labour-power, but also land, its subsoil, forests, waters, state-owned plants, factories and dwelling houses are not commodities.

Commodity-money relations and the forms of their expression (money, credit, price, finance, etc.) are an important instrument of social control over the production and distribution of goods.

The measures being taken in the USSR and other socialist countries to restructure the economic mechanism help to improve the use of commodity-money relations in the drive to accelerate scientific and technical progress, intensify social production and raise its efficiency.

The Commodity and Its Properties Under Socialism

The commodity is a product of labour meant for exchange. As we know, it exists under different socio-economic formations. But at different stages in mankind's development it expresses different relations of production.

Under socialism, *the commodity is a product of labour which is produced in a planned and balanced way at socialist enterprises to meet the society's requirements, and which is realised through planned and balanced commodity exchange.* This commodity is a product of planned direct social labour and expresses relations of cooperation among the producers.

Under socialism, as under capitalism, the commodity has two properties: use-value and value. The goal of capitalist production is to extract profit, so that the capitalist regards use-value solely as the vehicle of value and surplus-value. The goal of socialist production is to meet the constantly growing human requirements, so that the main thing here is to produce use-value, high-quality goods for the society's members.

The value of a commodity is determined by the socially necessary labour inputs. Under socialism, its reduction plays an important role. The lower the value of a commodity, the less labour has been expended on its production. And this means that with the same labour inputs the society can produce

more use-values, that is, increase its real wealth and raise the people's living standards.

The Dual Character of Labour

Under socialism, too, the labour expended on the production of commodities has a dual character: it is both *concrete labour*, which creates use-value, and *abstract labour*, which creates value. In planning production, the socialist society determines in advance in what kind of labour is engaged a definite part of the working population. That is why the commodity producer's concrete labour under socialism is no longer private, but acquires a social character directly in the course of planned production rather than indirectly, through the market. In the form of abstract labour, the various types of concrete labour (mental and manual, industrial and agricultural, skilled and unskilled, simple and complex) are reduced to a common denominator, expressed in the value of commodities.

The Contradictions of the Commodity and Labour

As we know, labour under socialism has a direct social character. However, shops are sometimes stocked with low-quality and marked-down goods, which are eventually sold to the detriment of the state. How can that happen in the planned socialist economy? There are many reasons: insufficient consumer studies, planning mistakes, changes in the product mix, the enterprises' urge to produce output they find more profitable, lack of coordination in the work of industrial and trading enterprises, and spoilage in production. All these are manifestations of the *contradiction between abstract and concrete labour, between the commodity's use-value and its value.*

That contradiction is non-antagonistic, and the state seeks to resolve it with the least possible losses. Over the past few years, steps have been taken in the USSR to improve product quality, increase responsibility for breaches of contract, improve standards and increase their role, and so on.

2. MONEY IN THE SOCIALIST ECONOMY

The Necessity and Essence of Money Under Socialism

Changes in the content of commodity-money relations under socialism are also expressed in the *new role of money.* Money under socialism cannot be capital, an instrument for exploiting

other people's labour. That is its basic distinction from money under capitalism.

Under socialism, money has become an instrument of planned organisation of the economy. It is used to build new enterprises, to run existing ones, to control the working people's measure of labour and measure of consumption, to determine the results of the enterprises' work, and to raise its efficiency.

The Functions of Money

The essence of money is manifested in its functions. Its first function is that of *standard of value*. It means that money serves as the measure of socially necessary labour embodied in commodities. *The money expression of the commodities' value is its price*. Since the socially necessary inputs under socialism are determined in a planned manner, prices are planned as well. Money functioning as the standard of value is used for planning and accounting production costs, the volume of the social product in value terms, its distribution and use. Money as the standard of value is used to determine production costs, results and efficiency, and to control fulfilment of economic plans. In this function, money is also used to control the measure of labour and consumption.

The second function of money is that of *medium of circulation*. Commodity circulation under socialism includes the movement of the products of labour between enterprises and the sale of consumer goods to the population, i.e., retail trade and paid services to the population. Retail trade in the USSR has three channels: state trade, cooperative trade, and trade on the collective-farm market. By paying money for goods and services, the buyers exercise social control over production, over the quality of goods and services, and over the balance between production and social requirements. Trade is balanced if effective demand does not exceed the supply of goods and services.

The third function of money is that of a *means of payment*. Money performs this function in the payment of wages by enterprises and establishments, in the fulfilment by the public, enterprises and organisations of various financial obligations to the state, in the repayment of bank and state credits, in the redemption of state loans and, finally, in settlements between enterprises when payment for deliveries is delayed. In this function, too, money is used as an important instrument of state control over the work of the enterprises. Thus, in allocating wage

funds, the State Bank makes sure that the established proportions between wages and labour productivity are observed, so that the latter grows faster than the former.

When turnover tax payments, payments for allocated assets, deductions from profits, and collective-farm income tax payments are made into the USSR state budget, the financial institutions control plan fulfilment by the enterprises in terms of volume, product mix and quality of output, and also production costs and profitability plans.

In extending credit to enterprises, the USSR State Bank controls the rational use of these credits and of the enterprises' own funds. Its agencies also seek to ensure timely settlements between the enterprises themselves.

The fourth function of money is that of a *means of socialist accumulation*. Money here serves to form monetary reserves kept on the bank accounts of the enterprises, economic and social organisations, the state budget, reserves in the form of the working people's savings-bank deposits, government bonds, and money kept at home.

The fifth function of money is that of *world money*. Under the state's currency monopoly, the currency units of each socialist country circulate solely within its borders, while all settlements with capitalist countries are made in the currencies of the latter, obtained through the sale of goods and services. If the payer country is short of a particular currency, the difference can be paid in convertible currency (US dollars, pounds sterling, West German marks, etc.). To settle their accounts with each other, the socialist countries use the transferable rouble, their collective socialist currency.

The Law of Money Circulation

In socialist economic practice, it is very important to regulate the amount of money in circulation (the money supply). If there is less money in circulation than is necessary, this will slow down the realisation of goods and, consequently, the whole reproduction process. And if there is more money in circulation than is necessary, this will entail a shortage of goods, which will be hard to buy.

The socialist state regulates the money supply in accordance with Marx's law of money circulation. According to that law, the *amount of money necessary for the circulation of commodities is equal to the sum-total of commodity prices divided by the velocity of the circulation of a given piece of money.*

Since sales on credit are practised in the retail trade of the socialist countries, the sum-total of the prices of the commodities sold on credit is subtracted from the sum-total of the prices of all the commodities being sold, and the amount of credit due for repayment is added. The state maintains these proportions not only by issuing money in order to pay wages, pensions, grants, scholarships, etc., but also by increasing the quantity of goods meant for sale. Two factors are highly important here: first, the need to maintain proportions between the growth of labour productivity and wages, and second, product quality, which will be examined in detail in Chapter Fourteen.

3. THE LAW OF VALUE AND ITS USE IN SOCIALIST CONSTRUCTION

The "Price" of Underestimating the Law of Value

There is nothing more practical than a good theory, as the saying goes. In the theory and practice of socialism, that is best borne out by the "fate" of the law of value. Since for thousands of years the law of value operated under private property in the means of production, many economists for a long time identified it with elemental market forces and anarchy of production. And since the economy under socialism is run according to plan, they said that the law of value did not apply to it. Use of prices by the socialist state was seen as a forced and temporary measure. The idea was that the sooner prices could be done away with, the sooner communism would be built.

In the USSR, that view did great damage to the development of the economy, agriculture in the first place. The point is that the prices of farm produce were fixed at too low a level to cover the socially necessary inputs, so that even normally operating collective farms suffered losses from the sale of their produce. In the 1950s, much was done to even out the wholesale prices of industrial and agricultural output. Still, profitability[1] in different branches of industry in the mid-1960s was far from equal. Enterprises in some industries had no incentives to increase production at all, for that would only serve to increase their losses, while in other industries unduly high prices created a semblance of extreme prosperity and gave rise to parasitical attitudes. Such was the "price" of underestimating the law of value.

Even today, some economists compare the law of value under socialism to a beast of prey, which has to be kept in check, and

[1] Profitability is the ratio of profit to the value of the fixed production assets and rated current assets.

do not want to understand that it is yet another objective economic law operating alongside the basic law of socialism, the law of balanced, proportionate development, the law of economy of time, the law of distribution according to work, etc. Moreover, all these laws operate and can be efficiently applied only in a system, in close interaction.

The Content of the Law of Value and Its Use

In accordance with the law of value, the prices of commodities should be determined by their social value, i.e., by the socially necessary inputs in their production. The operation of the law of value under socialism is radically different from its operation under capitalism, where prices are established spontaneously. The bourgeois state seeks to slow down the rise in prices, but that is usually done to check the struggle for wage increases. That is why prices not only fluctuate within a wide margin, but keep rising, which means huge profits for the capitalists and a decline in the real wages and salaries of workers and employees.

In the socialist countries, price formation is planned. The state plans supply and demand, social inputs and prices. Economic development proportions are established in accordance with the basic economic law of socialism and the law of balanced, proportionate development.

The major principle of price formation is orientation towards costs, i.e., towards the socially necessary inputs. That does not mean, however, that prices should coincide with costs. Moreover, the socialist state deliberately uses departure of prices from their costs in accordance with the concrete conditions of the production, exchange, distribution and consumption of commodities. Thus, the staple foodstuffs are priced so as to make them available to all, and the prices of children's goods are usually set below their social costs of production, whereas the prices of tobacco, wines and spirits are set far above their costs. By following such a price policy, the state influences the formation of reasonable requirements.

Supply and demand are an important factor in price formation. Some people think that whenever certain goods are in short supply it is enough to raise prices and supply will be balanced out with demand. That is indeed the easiest, but far from always, the most sensible way of satisfying demand. After all, a rise in the prices of consumer goods means a decline in the people's real incomes. The main way of eliminating the

disproportions between supply and demand is a rapid increase in the production of consumer goods.

The law of value and prices are used to stimulate scientific and technical progress. Where the price of a product is fixed on the level of the socially necessary inputs, an enterprise can obtain additional profit (a considerable part of which remains at its disposal) by introducing new machinery and technology, raising labour productivity, and lowering prime costs to below the planned level.

At the present stage of accelerating scientific and technical progress, which requires a rapid renewal of the product mix, price formation tends to become particularly important, for high prices are advantageous to the producer, and low prices, to the consumer.

Thus, will a farming cooperative find it profitable to buy a new harvester whose productiveness is, say, double that of earlier models? At first glance that may appear to be so. But if its price has more than doubled, it will hardly be a good buy for the cooperative. The price of the new harvester, as of any other machine, should be lower per unit of useful effect than that of the old one.

Now that the economic mechanism in the USSR is being restructured, much is being written about an input-reducing ("anti-expenditure") mechanism. Under such a mechanism, the work of an enterprise or an individual is to be assessed on the basis of its effect, its final result, instead of the inputs made. Such an approach will make it possible to achieve higher final results with lower inputs. In the sphere of price formation, this makes it necessary to use the law of value in such a way as to improve product quality, accelerate scientific and technical progress, and make sure that both the producer and the consumer benefit from the production of new, high-quality output.

QUESTIONS FOR DISCUSSION

1. Why is it necessary to retain commodity-money relations under socialism?
2. What is their fundamental distinction from commodity-money relations under capitalism?
3. What are the distinctions and interconnection between use-value and value under socialism and under capitalism?
4. What is the essence of the law of money circulation and why is it necessary to regulate the money supply?
5. What are the main factors affecting commodity prices?

Chapter Fourteen

FROM EACH ACCORDING TO HIS ABILITY, TO EACH ACCORDING TO HIS WORK

> Until the "higher" phase of communism arrives, the socialists demand the *strictest* control by society *and by the state* over the measure of labour and the measure of consumption... .
>
> *Lenin*

Improvements in the relations of distribution are highly important for accelerating socio-economic development and perfecting production relations under socialism. Distribution directly affects the interests of one and all. Indeed, one can hardly be indifferent to the amount of wages one earns and what these wages can buy.

Under socialism, there are still considerable differences in the people's material standards, and distribution is not always fair enough. To sort out these important socio-political matters, let us turn to the theory and practice of socialist distribution.

Today, work collectives in all socialist countries are coming to play a much more important role in running production. In order to do that more efficiently and help to accelerate the country's socio-economic development to the utmost, one should know the essence of socialist relations of distribution and their advantages over such relations under capitalism. One should also know how to make efficient use of these advantages in practice so as to intensify the development of production.

In this chapter, we shall examine distribution according to work as an economic law of socialism; wages under socialism, and the development of their forms and systems.

1. DISTRIBUTION ACCORDING TO WORK AS AN ECONOMIC LAW OF SOCIALISM

The Objective Necessity of Distribution According to Work

Each mode of production has its own mode of distribution, determined by the character of property in the means of production.

Since the means of production under capitalism belong to the bourgeoisie, it also owns the products of labour. As we saw, the working class is not the owner of these products, but receives, at best, the value of its labour-power, while the bulk of the product it creates is appropriated by the capitalist without recompense.

Socialism eliminates capitalist distribution together with private property in the means of production. All members of the society here are working people and equal co-owners of the means of production. That is why the whole national income belongs to the working people and goes to satisfy their personal and social requirements.

So how does the society distribute the part of the whole people's national income that goes into consumption? The classics of Marxism-Leninism gave a clear-cut answer to the question.

In his "Critique of the Gotha Programme", Marx came out against Ferdinand Lassalle's idea that the worker is entitled to the so-called "undiminished proceeds of labour", or the total social product. He showed that it is necessary to subtract from the national income a fund for expanding production, a reserve fund, the costs of administration, a fund for those unable to work, and a fund for joint satisfaction of needs. Only then can the remaining part of the national income be distributed in accordance with the quantity and quality of work expended by each member of the society.

Marx pointed out that in the first phase of communism "the individual producer receives back from society—after the deductions have been made—exactly what he gives to it",[1] in full accordance with the quantity and quality of work. And Lenin wrote: "After a deduction is made of the amount of labour which goes to the public fund, every worker, therefore,

[1] Karl Marx, "Critique of the Gotha Programme", in: Karl Marx, Frederick Engels, *Selected Works* in three volumes, Vol. 3, Progress Publishers, Moscow, 1970, p. 17.

receives from society as much as he has given to it."[1]

The practice of socialist construction confirms that the socialist society should distribute most of the accumulation fund according to work. It cannot distribute it, as under communism, according to needs for two reasons. First, the development level of the productive forces is still insufficient, and the production of material values is limited. Second, labour has yet to become a prime necessity and requires incentives.

Distribution according to work is an economic law of socialism. Its essence is that since the personal material interest of each in his work for the common good is an objective necessity, articles of consumption should be distributed according to the quantity and quality of work.

Distribution according to work is one of the greatest gains of socialism. It draws all able-bodied people into social production, provides powerful incentives to the development of the productive forces, strengthens socialist labour discipline, and makes it impossible for anyone to live at the expense of others.

Two Forms of Distribution Under Socialism

Distribution according to work is the main, but not the only form of distribution under socialism. Some requirements can only be satisfied collectively, and their satisfaction cannot depend on the individual's personal income. This includes upbringing and education, public health, care of the disabled, and so on. These requirements are satisfied from *social consumption funds*, with 70 per cent of these funds being contributed by the socialist state and about 30 per cent, by state enterprises and cooperatives.

So, means of livelihood under socialism are distributed in two main forms: according to work and through the social consumption funds. These two forms are equally objective and are determined by the basic economic law of socialism. They serve both as a condition for attaining the goal of socialist production and as an important means of its attainment. Correct use of each of the two forms helps to raise the people's living standards and offers them incentives to develop their abilities and efficiently apply these in practice. Both forms of distribution are objectively necessary.

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[1] V.I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, p. 470.

The Main Principle of Socialism

The main principle of socialism is "From each according to his ability, to each according to his work". This formula expresses the dialectical interconnection between production and distribution: work to the best of your ability, increase your efficiency, and you will be paid accordingly. The fullest implementation of the first part of the principle implies the need to create conditions under which every individual would be able to do a congenial job, working creatively and to the best of his ability. That helps to increase the social wealth and enables the individual to develop all his abilities. Implementation of the second part of the principle, that is, correct distribution according to work, gives the society a powerful instrument for developing production.

The law of distribution according to work, as any other law, does not operate automatically. Thus, if the second part of the formula—"to each according to his work" is not fully realised, the first part—"from each according to his ability"—will not be effectively realised either. If the individual knows that his earnings are directly dependent on the quantity and quality of his work, he will try to work better, to save raw and other materials, take care of the equipment, improve the quality of workmanship, and raise his skill standards. On the contrary, if he does not see such a connection, and if an idler gets as much as a good worker, the incentives to work are much weaker.

That is why it is important to learn to assess the quantity and quality of the work each of us gives to the society and the remuneration we get in return. That is the key not only to the full and efficient use of each individual's physical and spiritual abilities, but also to a steady development of these abilities, to social progress. This can be attained through correct organisation of labour and wages. An important role here belongs to the work collectives.

2. WAGES UNDER SOCIALISM

The Essence of Wages

Distribution according to work at state enterprises takes the form of wages. *Wages are the monetary expression of the main part of the necessary product created at the whole people's enterprises which goes into the workers' individual consumption in accordance with the quantity and quality of their*

labour in social production. In content, wages here are fundamentally different from wages under capitalism, for they do not express relations of exploitation, but socialist production relations between the worker and the society, between the individual and the collective. They are an important economic instrument used by the socialist society to control the measure of each worker's labour and consumption, and are the main source of the people's well-being.

The Wage-Rate System

The quantity of labour is measured in terms of labour time and the intensity of labour. The greater that intensity, the more labour is expended in an hour, a day, etc. The quality of labour is determined by its complexity. All the quantitative and qualitative characteristics of labour are expressed in *labour norms* (time norms, output norms, service norms, amount of work, etc.).

But today it is ever more necessary to take into account not only the quantity and quality of labour, but also its result, the quantity and quality of the resulting product or service. After all, one can expend a lot of labour but obtain a low final result. Thus, one can grow a good crop but fail to harvest it in due time, so losing much of the yield. That is why labour organisation and remuneration systems should be mostly oriented towards the results of the work rather than towards inputs.

The *wage-rate (tariff) system* provides a basis for state regulation of wages. It is meant to ensure optimal differentiation of wages depending on the complexity of labour, its conditions, and the industry's importance in the economy.

The wage-rate system includes wage rates, wage-rate scale, and rate-and-skill handbooks.

The *wage rate* is the absolute amount of remuneration per unit of time (hour, day or month) for workers of a definite grade. The wage rate of the first grade is taken as the point of departure, while the rates of the other grades are determined by multiplying the first-grade rate by a corresponding *wage-rate coefficient*, which reflects the different complexity of labour and shows the ratio of the wage rate of this or that grade to the wage rate of the first grade.

The wage rates and wage-rate coefficients are listed in a *wage-rate scale*. Most industries in the USSR have six-grade scales.

Wage rates can be hourly, daily and monthly. Hourly rates are used in most industries, where targets for the worker are usually set in terms of time norms per unit of output or per operation. Daily rates are used in industries with output norms set by the shift (coal, mining, metallurgical, oil-refining, etc.). Monthly rates (salaries) are used for some categories of auxiliary workers (storekeepers, lift and battery-powered truck operators, instrument distributors), and also for power-plant workers.

Industrial enterprises use diverse *additional payments and mark-ups to wage rates* (for night-time work, for team leadership in addition to one's basic work, for mastering more than one trade, for overtime, etc.).

For each hour of night-time work (from 22 p.m. to 6 a.m.), the workers of most industries are entitled to an additional payment of 20 per cent of the hourly rate; in the chemical and tyre-making industry and in railway transport the figure is 35 per cent, and in the textile and baking industries, 50 per cent.

For workers who are paid by the month, these additional payments also come to 20 per cent of the hourly rate for every hour of night-time work.

Since the 1970s, the team form of labour organisation and payment for work has been spreading widely in Soviet industry. Team leaders who continue to do their basic work are entitled to an additional payment. Thus, team leaders from among piece workers additionally get 10 per cent of the wage rate with a team of 5 to 10 workers and 15 per cent with a team of over 10 workers, provided the whole team fulfils its monthly output norms.

Mark-ups for mastering more than one trade come to 50 per cent for workers and 30 per cent for other categories of working people.

For overtime, piece workers are additionally paid 50 per cent of the corresponding time rate in the first two hours of overtime, and 100 per cent in the following hours. Time workers get 1.5 and 2 wage rates respectively.

Rate-and-skill handbooks are normative documents which list the production characteristics of the work performed by workers of definite occupations and skill grades; skill-grade standards, and the types of work characteristic of various occupations and skill grades in this or that industry. The harmony of the remuneration system depends on how accurately the complexity of the various types of work is assessed.

Engineers, technicians and office personnel are paid monthly *salaries*, established with due account for the working person's skill standards and the volume and character of his work.

Wages in the USSR are differentiated not only in accordance with the complexity of labour and the importance of the industry, but also from one region of the country to another. That depends on zonal distinctions in the economic and climatic conditions of labour, and also on the need to attract workers to the country's eastern, northern and other outlying regions.

The Forms and Systems of Wages

The main forms of wages are time wages and piece wages. Under time wages, the earnings are determined by the amount of labour time worked and by the worker's skill, and under piece wages, by the volume of output of a definite quality.

The diverse *wage systems* used in practice are varieties of these two forms.

Time wages are used as the simple time system and the time-and-bonus system. Under the former, engineers, technicians and office personnel receive salaries for the time actually worked, and workers are paid in accordance with wage rates. Under the latter, the payment of a wage rate to workers and of

salaries to engineers, technicians and office personnel is combined with bonuses for attaining definite quantitative and qualitative indicatops (fulfilment of output norms, improvement of product quality, economies in raw and other materials, fuel, energy, instruments, etc.).

Piece wages are used as direct piece wages, piece-and-bonus wages, and piece-and-progressive systems. Piece wages can be individual and collective.

The use of one form and system of wages or another depends on the technical level of production and its organisation. The piece form is usually used where the result of production activity depends on the efforts of individual workers or groups. Complex mechanisation and automation of production lead to wider use of time wages and especially of time-and-bonus wages.

The Collective Contract

The collective (or team) contract is one of the most efficient and promising forms of labour organisation and remuneration.

The team form of labour organisation in the USSR has existed for a long time, but individual piecework prevailed in most branches of the economy. A special indicator was even introduced at the enterprises: the share of workers doing individual piecework. The idea was that the higher this indicator, the better is the organisation and remuneration of labour.

But with the development of science and technology and the growing importance of the final results of labour, individual piecework was ever more obsolete. Close ties between different categories of personnel are now a production necessity: say, between production workers, adjusters servicing sophisticated equipment, engineers and technicians, or between workers doing installation and finishing work in the building industry. Since the mid-1980s, team contracts have been spreading in agriculture.

Depending on the production conditions, teams can be either specialised or composite. *Specialised teams* unite workers of one and the same trade, who perform technologically similar work, while *composite teams* unite workers of different trades, who perform technologically different but interconnected work.

The essence of the team contract is that all members of the collective work under a single work order, that is, the whole team is paid for its final product at certain rates. Then the common earnings are distributed among the members of the

team with regard to three factors: each worker's grade, the time worked, and the labour involvement coefficient (LIC), that is, each worker's contribution. The coefficient is determined at team meetings and can fluctuate within certain limits. At some enterprises, it is only additional piece wages that are distributed with regard to that coefficient, whereas at others it is the team's total earnings.

Wide use of the team system in the Soviet economy has demonstrated its indisputable advantages. Thus, it ties in wages with the final collective results and with the personal labour contribution of each member of the team, brings together all the workers engaged in one and the same production process, improves the organisation of production, reduces downtime, and helps to raise labour productivity and production efficiency.

Payment for Work and Labour Productivity

A major issue in organising wages and socialist control over the measure of labour and the measure of consumption is that of balancing out wage rises with labour productivity growth. Labour productivity should grow faster than real wages. This makes it possible to use a part of the social product to expand production and increase the social consumption funds. It also enables economic-calculus (*khozraschyot*) enterprises to increase their profits: unless labour productivity grows faster than wages, the enterprise's production costs will grow and its profitability will decline. Finally, it also makes it possible to maintain a correct balance between the population's money incomes and the supply of consumer goods and services.

QUESTIONS FOR DISCUSSION

1. Why is distribution according to the quantity and quality of work necessary under socialism?
2. What is the connection of distribution according to work with the development of production and the development of the individual?
3. Why is it necessary to distribute a part of the social product through social consumption funds?
4. What is the wage-rate system and what role does it play?
5. Why do collective forms of labour organisation and remuneration tend to play an ever more important role? What is the collective contract?

Chapter Fifteen
ECONOMIC CALCULUS

> The Party considers it necessary to develop and improve further the effectiveness of *cost accounting* and consistently to switch enterprises and associations over to full-scale cost accouning...
>
> *From the Programme of the Communist Party of the Soviet Union*

We have examined the most important features of socialist production relations and the economic laws that express them: the basic economic law, the law of balanced, proportionate development, the law of economy of time and steady growth of labour productivity, the law of value, and the law of distribution according to work. As we saw, all of these are closely interconnected and interact with each other. We shall now go on to examine their interaction in the activity of the socialist enterprise, the main production unit, so as to get a deeper insight into the content of economic activity at the enterprise, the need for greater economies, faster intensification and higher efficiency of production.

In this chapter, we shall examine the essence and principles of economic calculus; the assets of the enterprise and the ways of raising their efficiency; the value and cost price of output; prices in the socialist economy; net income and profit.

1. THE ESSENCE AND PRINCIPLES OF ECONOMIC CALCULUS

The Essence of Economic Calculus

The national economy of each socialist country consists of several units (tiers). The main structural unit is the *production enterprise (association)*, which creates material values. Under socialism, there are two main types of enterprises: state and cooperative.

Each enterprise has at its disposal a certain amount of resources invested in premises, machinery and equipment, and also monetary resources. To produce output, the enterprise buys the necessary raw and other materials, fuel and energy, and pays out wages. In selling its output, the enterprise should cover its expenditures and receive a profit, which is crucial to its financial status, to the development of its production, and to the well-being of its workers. Such a mode of economic activity under socialism is called economic calculus (*khozraschyot*).

In its activity, each enterprise enters into economic relations not only with other enterprises, but also with the state (with its planning and financial organs, with the State Bank) and with the working people employed at the enterprise (hire and dismissal, labour organisation and remuneration). Consequently, one could say that *economic calculus is a system of economic relations between the society as a whole and its economic units, their internal subdivisions and individual working people.* At the same time, it is *a method of the planned management of the economy.* It is based on the use of such value instruments as cost price, price, profit, wages, credit, etc.

The Principles of Economic Calculus

Self-recoupment (self-financing) is a major principle of economic calculus. It means that the enterprise should cover all its production expenditures from its income. Apart from that, each normally functioning enterprise should be profit-making.

Autonomy in business activity is another principle of economic calculus. This means that each self-financing enterprise has the necessary amount of material and financial resources, its own balance sheet, and an account at the State Bank; it is a legal entity and is entitled to receive credits and enter into contracts with other enterprises and organisations.

Material interest in the results of economic activity is yet another principle of economic calculus. This is attained through individual and collective incentives: payment for work, formation and use of economic incentives funds (to be examined later).

A major principle of economic calculus is *material responsibility* both of the whole work collective and its individual members for any shortcomings in their performance, failure to effect obligatory payments into the budget, non-delivery of output under contract, and so on. Any worker who inflicts

material damage on the enterprise must compensate the losses, fully or partially. An enterprise which fails to fulfil its obligations has to pay a forfeit, a fine or other penalty from its profits to compensate for the damage done, which affects the size of its economic incentives funds. When an enterprise in the USSR is temporarily short of funds, the necessary payments are made by the bank under a 60-day loan at an annual interest rate of 5 per cent. If the loan is not paid off in due time, the interest rate goes up.

Another principle of economic calculus is *monetary control* over the activity of enterprises by higher bodies, banks and financial institutions. Such control makes it possible to pinpoint any shortcomings in the performance of the enterprises without delay. If an enterprise fails to fulfil its sale plan or overspends its resources, the enterprise will not be able in due time to meet its obligations to its suppliers, to its own employees, and to the budget; it will not be able to return the bank loan and will have to ask for a deferment or for a new loan.

Economic Calculus and Economic Laws

Well-organised economic calculus induces the enterprises to operate in accordance with economic laws. This primarily applies to the need for planned and balanced economic development. No enterprise can function normally without state planning, and economic calculus induces the enterprises to fulfil their plans. If an enterprise fails to attain its plan targets in terms of product mix and volume of output, it will not be able to honour its contract and will have to pay a fine, which is bound to affect its earnings.

The principle of self-recoupment objectively induces the enterprise to reduce its expenditures, raise labour productivity, improve its machinery and technology, make better use of its production assets, save resources, and reduce its production cost.

All of that amounts to concrete use of the laws of value, of rising labour productivity, and time efficiency.

Material incentives are held out to the working people primarily through correct labour organisation and remuneration, and the improvement of machinery and technology is financed from the enterprise's own profits. That is why economic calculus is inconceivable without use of the laws of distribution according to work and socialist accumulation.

Well-organised economic calculus is a powerful instrument

in accelerating socialist production growth and raising the people's living standards, so serving to implement the basic economic law.

The principles of economic calculus and its necessity were substantiated by Lenin.

Following the defeat of the internal counter-revolution and foreign intervention, when Soviet Russia went over from "war communism" to the New Economic Policy and commodity-money relations, Lenin wrote that the way to build socialism was "not directly relying on enthusiasm, but aided by the enthusiasm engendered by the great revolution, and on the basis of personal interest, personal incentive and business principles".[1] Such principles (see the principles of economic calculus) were adopted as the basis of all state industry. Trusts and enterprises were set up on the principles so that they should be fully responsible for their own loss-free operation.

Economic calculus has spread to every sector of the national economy and different tiers of management. Today, it is being introduced not only at the enterprise (production association), but also within the framework of its various units (workshops, sections, and teams), and also on the scale of industrial associations and ministries. To make economic calculus more efficient, it should be brought right down to its immediate performers, so that all members of the work collective should master its principles.

2. THE ASSETS OF ENTERPRISES AND THE WAYS OF RAISING THEIR EFFICIENCY

The Assets of Enterprises and Their Circuit

Each enterprise has its own assets: premises, transport facilities, plant and equipment, inventories, and monetary resources on the enterprise's account at the State Bank. The value of these assets is in constant motion. Intensification of production and the efficiency of the enterprise's performance largely depend on the use of these assets, on the movement of their value.

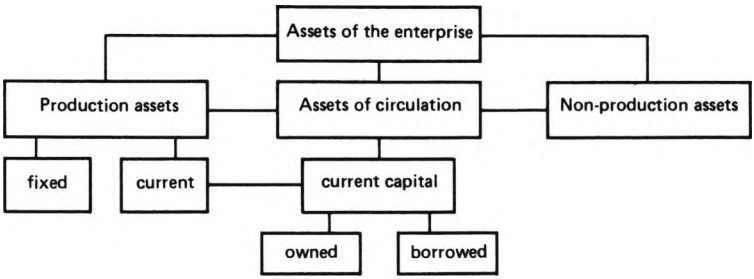
The assets of enterprises perform different functions and are thus divided into three groups: production assets, the as-

[1] V.I. Lenin, "Fourth Anniversary of the October Revolution", *Collected Works*, Vol. 33, 1976, p. 58.

sets of circulation, and non-production assets. *Production assets* include premises, plant and equipment, stocks of fuel, raw and other materials, and work-in-progress. The *assets of circulation* include finished products stockpiled at the enterprise's warehouses or shipped to the customers, and also monetary resources in cash, at the bank, and on outstanding accounts. *Non-production assets* include dwelling houses, clubs, children's institutions, stadiums, and so on.

The crucial role belongs to the production assets of the enterprise, which are divided into *fixed* (instruments of labour: buildings, plant and equipment, tools, transport facilities, etc.) and *current*, or working (objects of labour: raw, basic and auxiliary materials, unfinished products, fuel, etc.). The value of fixed production assets is transferred to the manufactured product gradually, as they are worn out, while current assets lose their natural form in the production process (cotton is turned into yarn, yarn into fabric, flour into bread, ore into metal) and their value is thus fully transferred to the manufactured product. Current production assets and the assets of circulation together constitute the *current capital* of the enterprise, while the fixed production assets constitute its *fixed capital.*

The Structure of the Assets of Enterprises



As it was already noted, the assets of the enterprise are in constant motion: the enterprise uses its monetary resources to buy raw and other materials, fuel, electric power and other objects of labour, which are brought to its warehouses and go into production. Having been subjected to processing, they emerge from production in the form of finished products, which go to the warehouses. From these, they are shipped to the buyers,

while their value returns to the enterprise's account in the form of money. So, the assets of the enterprise perform a circuit, which has three stages. At each of these stages, the assets assume a certain form and perform a certain function:

the first, money stage, or acquisition of the means of production ($M—C$);

the second, productive stage, or the production of a new commodity ($...P...$);

and the third, commodity stage, or realisation of the finished product ($C'—M'$).

The periodic recurrence of this circuit, as a result of which the value of the assets returns to its initial form, is known as the *turnover of assets.*

The Fixed Production Assets of Enterprises and the Ways of Improving Their Use

Fixed production assets serve many years and transfer their value to the new products gradually, as they are worn out. Fixed assets are subject to wear and tear and obsolescence.

As a result of *wear and tear*, fixed assets gradually lose their use-value and, consequently, their value, as they become less suitable for use in the production process (machines are worn out, buildings age). Wear and tear occur both in the production process and under the impact of natural forces (erosion, decay, etc.).

As a result of *obsolescence*, the instruments of labour lose a part of their value under the impact of technical progress. There are two forms of obsolescence. First, when the value of one and the same type of machine is reduced as a result of labour productivity growth, so that earlier-built machines lose a part of their value. And second, when new and more productive machines appear as a result of scientific and technical progress, so that it is no longer profitable to use obsolete, though physically intact machines.

Here is an example. If the initial value of a machine is 20.000 roubles and its service life is 10 years, 2,000 roubles worth of value will be annually transferred to the new product. Three years later, the machine will have a value of 14,000 roubles (20,000 roubles—(2,000 roubles×3)).

Let us assume that in three years the production costs for that type of machine have gone down by 10 per cent to 18,000 roubles. Thus, a machine that was made three years ago will now cost 12,600 roubles instead of 14,000 roubles.

$$(18{,}000 \text{ roubles} - \frac{18{,}000 \text{ roubles} \times 3}{10})$$

So, obsolescence of the first form will constitute 2,000 roubles for an old machine that has not been in operation (20,000 roubles—18,000 roubles) and 1,400 roubles for a machine that has been in operation three years (14,000 roubles—12,600 roubles), that is, 600 roubles less.

That is why in order to reduce the losses from obsolescence it is necessary to use fixed assets as intensively as possible over a greater number of shifts and reduce unscheduled downtime.

Recoupment of the wear and tear of fixed assets through a gradual transfer of their value to the new product is called *depreciation*. The *rate of depreciation* is determined as the annual amount of depreciation divided by the value of the machine.

In our example, the annual amount of depreciation is 2,000 roubles (20,000 roubles: 10). The depreciation rate $= \frac{2{,}000 \text{ roubles}}{20{,}000 \text{ roubles}} \times 100 = 10$ per cent.

But since that does not include obsolescence, the actual rate of depreciation should exceed 10 per cent, so that obsolescent machinery could be replaced with new and more efficient machinery in due time.

The main ways of improving the use of fixed assets were examined in Chapter Eleven. We shall now take a closer look at the use of current capital.

The Ways of Improving the Use of Current Capital

It often happens in practice that a smoothly operating enterprise fulfils its plans for contractual deliveries, but is short of money to pay out wages or settle its accounts. What is the reason?

Let us recall the meaning of current capital, for it is the source from which these expenditures are met. Current capital is made up of current production assets and the assets of circulation, i.e., production stocks, work-in-progress, finished products, and monetary resources in cash and on outstanding accounts.

Normative figures for current capital in days and roubles are set for each enterprise. Thus, if it receives raw materials twice a month, the normative figure for raw materials will be 15 days. If its monthly raw-material requirements come to 500,000 roubles, the normative figure will be 250,000 roubles. But if the enterprise has stockpiled 1 million roubles worth of raw materials at its warehouses, this means it has immobilised 750,000 roubles in extra-normative inventories. If the monthly output of the enterprise is set at 900,000 roubles, with regular daily shipments, the normative inventories of finished

products come to 30,000 roubles. And if the enterprise does not make any shipments for five days, it will have 150,000 roubles worth of extra-normative finished-product inventories. Resources can also be immobilised on outstanding accounts with defaulting buyers. Hence it is clear how important it is for each enterprise to make correct use of its current capital.

The problem of the efficient use of current capital is highly important from the standpoint of the national economy, for the faster the turnover of material and monetary resources in the sphere of production and circulation, the less of these will the society require to maintain the production process and the more will it be able to allocate for expanding production and raising the people's living standards.

3. THE VALUE AND COST PRICE OF PRODUCTS

The Cost Price of Products

In order to turn out some product, it is necessary to expend raw and other materials, fuel, energy, to pay out wages to the workers and office personnel, and to make other expenditures. *The sum-total of expenditures on the production of output expressed in money terms is known as cost price.* Thus, if the extraction of coal at a mine is 4 million tons a month, the expenditures on its extraction come to 70 million roubles and on delivery to 10 million roubles, the cost price of the total output will be 80 million roubles, and that of one ton of coal, 20 roubles.

Cost price is a part of the commodity's value. Whereas value includes all the society's expenditures on the production of some product, cost price includes the value of the material outlays and the part of the value of the necessary product represented by wages. Cost price does not include the value of the surplus product and the part of the necessary product which is covered from social consumption funds.

In other words, value is the social labour materialised in the product. The size of the product's value is determined by the quantity of labour socially necessary to produce it and is measured in the socially necessary labour time. Cost price is the monetary expression of the costs of production. Cost price is formed directly at the enterprise.

Cost price is very important in the system of economic calculus. First, it shows the expenditures of diverse enterprises on the production of one and the same type of output, makes it

possible to compare individual expenditures with socially necessary expenditures, helping to reduce the former and, consequently, the latter as well. Second, cost price provides a basis for price formation. Third, it is a major indicator of the efficiency of the work of enterprises. Fourth, cuts in cost price serve to reduce value and thus also prices, and are a key source (alongside an expansion of production) of higher profits. Clearly, no enterprise can operate without planning and analysing its cost prices, since before the plan is adopted the society should know how much it will take to turn out this or that product.

The importance of cost price in the system of economic calculus tends to increase with the transition to a predominantly intensive way of development, when production growth is attained through faster scientific and technical progress, higher labour productivity, and lower material and labour inputs per unit of output.

Ways of Reducing Cost Price

The main ways of reducing cost price are those of raising labour productivity, lowering the capital and the material intensity, and expanding production. All these factors are interconnected. Let us take a closer look at them.

Higher labour productivity and an increase in output are of crucial importance for reducing cost price. The point is that expenditures are divided into direct (expenditures on raw and other materials, the wages of production workers, etc.) and fixed (heating, lighting, the wages of managerial and office personnel, depreciation of buildings, etc.). That is why the higher the labour productivity and the greater the volume of output, the lower are the constant expenditures per unit of output, the lower is the cost price.

Labour productivity growth should always be compared with the rise in wages. Thus, if labour productivity at an enterprise goes up by 3 per cent a year, and wages rise by 5 per cent, the wage costs will increase. If the production costs are to be reduced, labour productivity should grow faster than wages.

Another important way of reducing cost price is to reduce the expenditures of raw and other materials, fuel and energy, that is, to reduce the *material intensity of output*, replace expensive raw materials with cheaper ones, and make wide use of recycled materials and energy. Thus, steel made from scrap iron is 25 times as cheap as that made from pig iron.

The cost price of output can also be reduced by lowering the capital intensity (assets-output ratio). As we saw in Chapter Eleven, this can only be achieved by improving and making better use of production machinery and technology.

All these factors in reducing cost price operate at all enterprises and in all industries. But the importance of each of them differs from one industry and enterprise to another. This depends on the *structure of cost price.*

Production Expenditures Structure in Various Industries in the USSR (per cent)

Expenditures	Industries				
	fuel	ferrous metallurgy	engineering and metal-working	light	food
Raw and basic materials	55.2	56.8	58.6	85.4	81.4
Auxiliary materials	5.1	6.7	3.8	2.7	4.1
Fuel	0.8	10.0	1.3	0.4	1.7
Energy	4.9	4.9	2.1	0.7	0.7
Depreciation	14.7	10.2	7.3	1.8	4.0
Wages and social insurance deductions	13.3	10.3	22.4	8.4	6.7
Other expenditures	6.0	1.1	4.5	0.6	1.4
Total	100.0	100.0	100.0	100.0	100.0

As we find, the share of expenditures on raw and basic materials in light industry is 50 per cent higher than in the fuel industry, while depreciation expenditures in the fuel industry are 8 times as high as in light industry. So, the possibilities for reducing cost price through cuts in the expenditure of raw and basic materials in light industry are much higher than in the fuel industry, and through cuts in the assets-output ratio, vice versa.

A key factor in reducing all kinds of expenditures is *faster scientific and technical progress*, improvements in production machinery, technology and organisation.

It is not only the society as a whole and the work collectives that have an objective interest in reducing cost prices, but also

every member of each collective, for cost cutting is a necessary condition for lowering the prices of consumer goods. It is also a major source of the enterprise's higher profits and larger incentives funds formed from these profits.

4. PRICES IN THE SOCIALIST ECONOMY

The Content of Prices and the Price System

Prices are one of the main instruments of the economic mechanism under socialism.

The people's real incomes depend on prices. But their role is not confined to that: as a monetary expression of value, prices have a strong influence on production outlays, on the product mix and quality of output, on the incomes and expenditures of enterprises, industries and the state budget, on the mutual relations between industry and agriculture, on the balance between departments I and II of social reproduction, on scientific and technical progress, and so on.

Depending on the sphere of commodity circulation, all prices in the USSR are divided into wholesale, purchasing, and retail.

Wholesale prices are used to realise industrial goods and services between industrial enterprises, and also between industry and other branches of the economy.

Wholesale prices are divided into the wholesale prices of enterprises and the wholesale prices of industry. The former recoup the enterprise's costs of production (cost price) and ensure normative profit. At such prices, for instance, oil refineries supply oil marketing organisations with petrol. The wholesale prices of industry are used to supply user-enterprises with means of production, and to realise consumer goods through wholesale trade. The wholesale prices of industry are higher than the wholesale prices of enterprises, for they include supply and marketing costs and the turnover tax (realised in the prices of oil products, gas, electric power, and consumer goods). At these prices, for instance, oil marketing organisations supply petrol to motor depots.

Purchasing prices are used to sell the produce of collective, state and personal subsidiary farms to procurement organisations.

Retail prices are used to sell consumer goods to the population. They are higher than the wholesale prices of industry, for they include a mark-up which goes to cover the marketing expenditures and to form the profit of commercial organisations.

Apart from state retail prices, there are also the *prices of commission trade* and the *prices of the collective-farm market*. These two types of prices are not fixed by the state, but are indirectly influenced by state retail prices.

The Functions of Prices

Prices in the socialist economy perform three major functions: accounting, stimulating and redistributive.

We know that price is the monetary expression of the commodity's value, and value is determined by the socially necessary labour inputs. The first, *accounting function of prices* is to measure the socially necessary labour inputs. The closer prices correspond to the socially necessary inputs, the more accurately they indicate the society's expenditures on meeting various requirements. That is why the main principle of the price-formation policy is to bring prices closer to value, i.e., to the socially necessary inputs.

When the state uses prices to encourage producers to reduce labour inputs and production costs, renew the product mix, improve the quality of output, and accelerate scientific and technical progress and economic development in general, prices perform their second, *stimulating function*.

The third function of prices is *redistributive*. They are used to redistribute the incomes of various sectors of the national economy, enterprises or social groups. Thus, to accelerate the development of agriculture, mineral fertilizers, electric power and gas are being sold to it at reduced prices. A number of foodstuffs (meat, milk, vegetables, etc.) are being sold to the population at prices that are fixed below purchasing prices and even below the costs of production (with the difference being compensated from the budget) so as to make these foodstuffs available to people with any incomes. The redistributive function of prices is used to form and to regulate the demand for various products. Higher prices serve to curtail the consumption of socially harmful products (like alcohol or tobacco) and to regulate the demand for specialty and luxury goods. Lower prices are established for children's goods and staple foods.

The socialist state follows a policy of stable prices, regulating the balance between supply and demand primarily through changes in production volume. But the line for stable prices does not rule out their movement and flexibility with due regard for changes in production costs.

The CPSU Programme emphasises: "*Price-formation* must be improved to ensure that prices reflect more accurately the level of socially indispensable inputs and the quality of products and services, that they stimulate more actively scientific and technological progress, thrift in the use of resources, improvement of technical, economic and consumer qualities of products and introduction of all things new and advanced, and that they promote greater economy."[1]

At the present stage, it is particularly important in price formation to take into account the consumer properties of products. A number of problems arise in this context. On the pretext of modernisation, producers sometimes raise the prices of machinery and equipment or the scheduled costs of construction. Changes in the product mix and the striving to increase gross output often lead to unwarranted increases in the prices of consumer goods as well.

That is an extremely negative tendency. Inflated prices based on the pro-expenditure approach tend to obscure the flaws in the technology and organisation of production, slow down technical progress, and discourage a quest for rational economic management.

Price rises are only justified if they result from a significant improvement in the consumer properties of goods, from their higher efficiency.

5. THE SOCIETY'S NET INCOME AND PROFIT

Profit and Turnover Tax

Net income is the monetary expression of the surplus product created by the labour of the working people involved in socialist production. It is meant for social consumption (the non-production sphere, the disabled, the state apparatus, defence) and for expanding production.

Profit and the turnover tax are the two main forms of net income. Both of these have the same socio-economic nature, that is, they are created by surplus labour and are based on the surplus product, but they differ in their formation mechanism, functions, and uses.

When the product is realised, the *turnover tax* goes directly into the state budget. In economic content, the turnover tax in the USSR and other socialist countries cannot be regarded as

[1] *The Programme of the Communist Party of the Soviet Union*, p. 38.

an actual tax, for it does not amount to a price increment and is not a deduction from the wages of industrial and office workers or from the incomes of other working people.

Profit is the difference between the wholesale price of the enterprise and the cost price of the output. It depends on many factors, especially the volume of production, cost price, price levels and dynamics, and changes in the structure of the output. Through its central planning mechanism, the socialist state induces the enterprises to increase their profits by increasing production volumes and reducing the cost price instead of changing the product mix, for that could lead to breaches in contractual deliveries, to disproportions in economic development.

Profit is a crucial synthetic indicator summing up the efficiency of production. The ratio of profit to the average annual value of fixed and current production assets expressed as a percentage is called the *rate of profitability*:

$$p' = \frac{P}{A} \times 100,$$

where p' is the rate of profitability, P is the mass of profit, and A is the value of production assets.

Distribution of Profit

The state seeks to improve the mechanism for the planned distribution of profit so as to harmonise the interests of the society, work collectives and individual workers.

In the USSR, certain priority payments (payments for production assets, fixed or rent payments, and interest on bank credit) are first made from the total amount of profit (balance-sheet profit). The rest of the profit is distributed along three channels, going to form economic incentives funds, to expand production and, with the undistributed profit, to make payments into the state budget.

So, profit is not only the main source of state budget revenues, but also a source of expanding production and technological progress at the enterprise, offering the working people material incentives to the results of their work.

Economic Incentives Funds

In order to stimulate efficient work, three funds are set up at the enterprises: material incentives fund (MIF), socio-cultural and housing fund, and production development fund.

The *material incentives fund* is formed from profits depending on labour productivity growth, high quality of output, and fulfilment of the plan for deliveries under contract. This fund is used to reward workers for high standards of work, to give lumpsum grants and bonuses for the performance of especially important assignments in improving production or introducing new technology, to reward workers for the results of emulation at the enterprises, etc.

The *socio-cultural and housing fund* amounts to 30-50 per cent of the MIF. It is used to build and repair dwelling houses, preschool institutions, preventive medical centres, canteens, etc., and also to build houses and various cultural and everyday projects together with other organisations.

The *production development fund* is formed with deductions from profit, a part of the depreciation deductions, and receipts from the sales of retired fixed assets. It is used to mechanise and automate production, to renew and modernise equipment, and to improve production and labour organisation.

So, the profit of socialist enterprises is fundamentally distinct from capitalist profit. It is a result of labour free from exploitation and is used to improve production and meet the working people's material and spiritual needs.

On the Way to Full Economic Calculus

The economic-calculus system examined above had on the whole taken shape in the USSR by the early and mid-1980s. The strategic course for an acceleration of the country's socio-economic development elaborated by the 27th Congress of the CPSU calls for a restructuring of the economic mechanism, including economic calculus. Broad introduction of economic calculus within production units and a transition of enterprises and associations to full economic calculus are the main lines of its development in the USSR.

The essence of economic calculus within the production units of the enterprise is to organise profit and loss accounting in these units, to offer their collectives additional incentives to faster scientific and technical progress and more efficient production.

What is the distinction of full economic calculus from the earlier system, and what are its advantages over the latter? Briefly speaking, the earlier self-supporting system only applied to current production activity of the enterprises. As for capital investments, these were mostly financed from the budget,

whereas the whole of the so-called undistributed profit of the enterprise was deducted into the budget. The size of these deductions was not fixed in advance. It turned out that the funds earned by the enterprise could be withdrawn into the budget, while those it did not earn were allocated to it. As a result, economic managers were inclined to dependence on the state. Now that enterprises are being switched to full economic calculus on the basis of self-financing, the enterprise's own funds (and bank credits) are used not only to cover its current production costs (including wages) and to form economic incentives funds, but also to finance technical re-equipment, renovation and expansion of the enterprise.

Consequently, the essential distinction of full economic calculus based on self-financing from the earlier system is that it rules out any redistribution of the funds of profit-oriented enterprises within the industry, as well as budget financing of capital investments to extend the capacities of operating enterprises. Self-financing ensures (at the expense of the enterprise's own and borrowed funds) not only simple, but also expanded reproduction. It is only new enterprises that are built at the expense of the budget.

Among the other advantages of the new system of economic calculus based on self-financing is a more flexible and simple system of labour remuneration and incentives, since profit deductions into the budget and to the ministry are made on the basis of long-term normative percentages, which are fixed in advance. The enterprise's sales receipts are first used to pay for material resources and to make depreciation deductions. The part of the depreciation deduction that is meant for renovation of fixed assets remains at the disposal of the enterprises (instead of the ministry, as in the past), and goes to finance capital investments. The remaining value of the net product is used to make payments into the budget and to the ministry (on the basis of a fixed percentage). The rest of the earnings go to form the enterprise's remuneration and personal incentives funds, to expand production, apply scientific and technological achievements, and promote the social development of the work collective.

So, the enterprises now have a stake not only in expanding production, but also in maximising its efficiency on the basis of scientific and technical progress.

QUESTIONS FOR DISCUSSION

1. What is economic calculus? and what are its principles?
2. Why is it necessary to improve the use of the enterprise's fixed and current capital?
3. What are the main ways of accelerating the turnover of current capital?
4. Why is it necessary to reduce the cost price of output and how can that be done at a particular enterprise?
5. How does an enterprise form and spend its economic incentives funds?

Chapter Sixteen

SOCIALIST REPRODUCTION AND THE WAYS OF ITS IMPROVEMENT

> Whatever the form of the process of production in a society, it must be a continuous process... A society can no more cease to produce than it can cease to consume.
>
> *Karl Marx*

We have examined the main aspects of socialist production relations, the content, forms and methods of the use of the most important economic laws of socialism in different spheres of economic activity (production, distribution, exchange and consumption).

We have also examined the turnover of the assets of socialist enterprises, which amounts to the process of reproduction within the framework of the enterprise, and have studied the production-efficiency factors that mostly depend on the enterprise itself. But each enterprise does not exist in isolation from other enterprises. It is linked with these through thousands of channels, along which material goods and services are exchanged for their money equivalent. That is why the success of any enterprise depends not only on the work of its own collective, but also on that of its partners, which supply it with raw materials, fuel, machinery and electric power, and also on the buyers of its products.

Where are the raw materials, fuel and machinery to come from? How many workers and resources, machine tools and equipment should the society allocate to each branch of the economy, and how much of its annual income should go into consumption and into accumulation? How should all its resources be used most efficiently and without interrupting production? All these questions are highly important at the present stage of development, a stage of accelerating socio-economic development and economic restructuring.

In this chapter, we shall examine the essence, main features and advantages of socialist reproduction; the aggregate social product and the national income; accelerating socio-economic development and rising efficiency of socialist reproduction.

1. THE ESSENCE, MAIN FEATURES AND ADVANTAGES OF SOCIALIST REPRODUCTION

Reproduction in a society can be either simple or expanded. *Simple reproduction* means that production keeps being repeated on the same scale as before. In that instance, the economy is marked by stagnation, and the society has virtually no chance to raise living standards or improve machinery and technology. In *expanded reproduction*, production is reproduced on an ever larger scale, providing the society with resources both for developing production and for improving the people's well-being. The socialist economy is characterised by rapid expanded reproduction.

In any society, there is reproduction of material values, labour-power and production relations. But the character of reproduction differs widely from one socio-economic formation to another. *Socialist social reproduction is fundamentally different from capitalist reproduction.*

First, expanded reproduction of material values under capitalism serves to augment capitalist property, to increase the power of capital over labour. Under socialism, the reproduction of material values serves to augment socialist property, the social wealth that goes to meet the requirements of the society and all its members.

Second, labour-power under capitalism is reproduced as a commodity. In order to survive, the worker is obliged to sell his capacity for work again and again, and the capitalist keeps buying it in order to make profit. Under socialism, reproduction of labour-power implies the fullest and all-round development of the individual free from exploitation.

Third, predominance of social property in the means of production ensures planned, balanced and dynamic reproduction free from crises and unemployment with their tragic economic and social consequences.

So, *socialist expanded reproduction is a planned and balanced process of steady development of the productive forces and the relations of production and of the growth of social production in order to meet the rising requirements and ensure*

the all-round development of all members of the socialist society.

The material basis for socialist expanded reproduction is provided by the aggregate social product.

2. THE AGGREGATE SOCIAL PRODUCT AND THE NATIONAL INCOME

The Aggregate Social Product

The aggregate social product (ASP) is the sum-total of the material values produced in all the branches of material production over a definite period (usually a year). In order to understand the numerous complicated ties and interrelationships in the national economy, one should first of all analyse the overall structure of the aggregate social product and its component parts.

Under socialism, where commodity-money relations are being widely used, the aggregate social product is a unity of use-value and value. This means that it has a value form and a natural material form.

In terms of *value*, the aggregate social product consists of two big parts: the value of the used-up means of production and the newly created value, or national income. The latter also consists of two parts: the value of the necessary product and the value of the surplus product. That is why in terms of value the aggregate social product could be expressed as follows:

$$ASP=MI+NI\ (Pn+Ps),$$

where *MI* is the material inputs, or used-up means of production; *NI* is the national income; *Pn* is the necessary product, and *Ps* is the surplus product.

In *natural material terms*, the ASP consists of numerous use-values, ranging from toys to spacecraft. All these use-values are divided into two big streams, one of which goes into production consumption, and the other, into personal consumption. In other words, the first stream consists of means of production (producer goods) and the second, of articles of consumption (consumer goods).

The whole of social production is thus divided into two parts: *production of means of production* (department I) and *production of articles of consumption* (department II).[1] It was

[1] In industry, branches producing means of production are usually known as group A, while branches producing articles of consumption are known as group B.

Marx who first divided the aggregate social product along these lines (in value and natural terms).

It is often impossible to tell by the name of a product or its appearance whether it belongs to the means of production or articles of consumption. Thus, coal used to heat houses is an article of consumption, whereas coal used to produce electric power is a means of production; sugar that goes into the food industry is a means of production, whereas the sugar we buy in a food store for our personal needs is an article of consumption; the petrol that goes to fuel trucks is a means of production, whereas that which goes to fuel individual cars is an article of consumption.

Socialism is marked by planned, balanced, steady and rapid growth of the aggregate social product. From 1960 to 1983, it increased 5.2 times in Bulgaria, 3 times in Hungary and the GDR, 3.8 times in Mongolia, 5.9 times in Romania, 3.6 times in the USSR, and 2.7 times in Czechoslovakia. In the 1970s and the first half of the 1980s, however, there was a decline in ASP growth in the USSR. The CPSU Central Committee's plenary meeting in April 1985 adopted a strategic line for accelerating the country's socio-economic development, which was reaffirmed and developed at the Party's 27th Congress. The very first steps taken to implement that line have yielded positive results: production growth rates have markedly increased.

The National Income, Its Production and Distribution

The national income is the new value created in the national economy over a definite period (usually a year). It consists of the value of the necessary and the surplus product. In other words, the national income is equal to the aggregate social product minus the value of the means of production used up in the given period. In natural material terms, it consists of articles of consumption and that part of the means of production which is meant to expand production and increase production reserves.

The national income plays an exceptional role in the society's life. It serves as a source:

first, for the consumption fund of those employed in the sphere of material production and for ensuring the reproduction of labour-power;

second, for maintaining the non-production sphere, including state administration and the country's defence;

and third, for expanding production and forming reserves which are required for uninterrupted reproduction.

The absolute magnitude of the national income and its growth rate can only be determined in comparable (i.e., constant) prices. The magnitude of the national income computed in comparable prices is known as the *physical volume of the national income.*

Since the part of the ASP which constitutes the value of the used-up means of production (the replacement fund) is designed to cover material inputs in production, the pace of expanded reproduction and the rise of the people's well-being primarily depends on the magnitude of the national income and its natural material content.

Economists often use the term *final social product.* It is the part of the ASP which consists of finished products and is used for the working people's consumption, for the replacement of means of labour worn out in the course of a year, and for accumulation. In quantitative terms, it is equal to the newly created value (or national income) plus the annual depreciation of fixed assets. In material terms, it consists of consumer goods and means of labour.

How is the national income created under socialism?

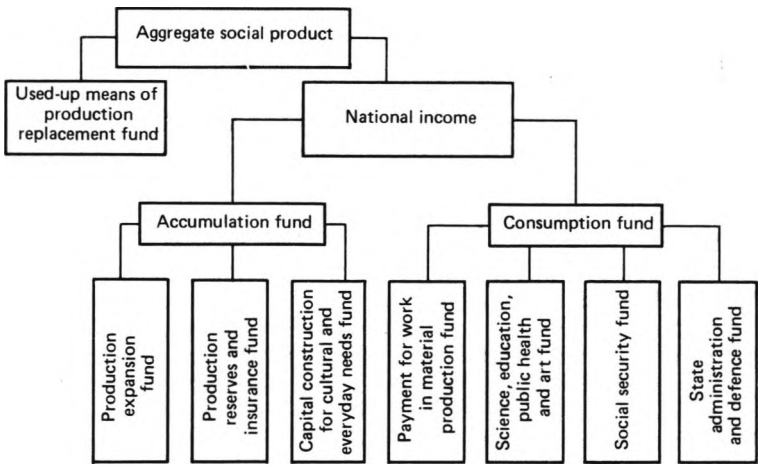
The national income is *created* in the sphere of material production. Its magnitude depends on the number of those employed in material production and on their labour productivity. Rising labour productivity has always been of paramount importance, and today it is virtually the only source of increasing the national income. In the 12th five-year plan period (1986-1990), the whole increase in the USSR's industrial and agricultural production, and also in rail traffic and construction volumes is to come from labour productivity growth.

How is the national income *distributed* and what are its *uses*?

The national income, as we know, consists of the necessary and the surplus product. We also know that the necessary product goes to reproduce labour-power employed in the sphere of material production. The main part of it assumes the form of payment for work, another part takes the form of social consumption funds, which are used to meet the social requirements of those employed in material production and members of their family, and the third part appears in the form of incomes from personal subsidiary farms.

The distribution pattern of the surplus product is more complicated. One part of it goes to expand production and form the country's social reserves, that is, it goes into accumulation.

Another part is used to develop the non-production sphere: education, public health, culture, science, sports and tourism, state administration, and defence, that is, it mostly goes into current consumption. Yet another part of the surplus product, spent on the construction of theatres, clubs, dwelling houses and other non-production projects, goes into non-production accumulation. The whole complicated pattern of the distribution and consumption of the aggregate social product and the national income could be presented as follows.


Aggregate social product
Used-up means of production replacement fund
National income
Accumulation fund
Consumption fund
Production expansion fund
Production reserves and insurance fund
Capital construction for cultural and everyday needs fund
Payment for work in material production fund
Science, education, public health and art fund
Social security fund
State administration and defence fund

The socialist society's aggregate social product and its national income, especially the surplus product, are fundamentally distinct from these categories under capitalism. Let us take a closer look at these distinctions.

Under capitalism, the aggregate social product is the property of the exploiter classes, and under socialism, it is the asset of all the working people, collectives and individual citizens. Most of the output is produced at state (the whole people's) enterprises and belongs to the whole people.

Under capitalism, the largest part of the ASP—the fund for replacing the used-up means of production—amounts to constant capital and serves as an instrument for exploiting the working masses, and under socialism it belongs to the working people. The socialist society's production facilities are used to produce material and spiritual values in order to meet the working people's requirements in the best possible way.

Under capitalism, the national income and its component parts (the necessary and the surplus product, the accumulation and the consumption fund) express antagonistic contradictions between the bourgeoisie and the proletariat. The correlation between them is determined in the course of a fierce class struggle. Under socialism, the surplus, as well as the necessary product are used in the interests of the working people, since any expansion and improvement of production is ultimately aimed at meeting the people's growing requirements in the best possible way.

Socialist production relations are reproduced together with the expanded reproduction of material values and labour-power. The living standards of the growing population of the socialist countries, the people's labour skills and their working and living conditions keep rising. Steps are being taken to improve production organisation and the relations of distribution. The society is ever more homogeneous in social terms, with stronger friendship among the peoples both within each socialist country and between them.

The National Wealth

Socialist expanded reproduction is closely connected with the national wealth. *The national wealth is the whole aggregation of the society's material values.* It includes:

fixed production assets, that is, the means of labour: buildings, installations, production equipment, etc.;

current production assets, that is, the objects of labour: production stocks and work-in-progress;

the assets of circulation of the national economy, consisting of stocks of finished products at the warehouses of state and cooperative production enterprises and commercial organisations, and also state and cooperative material reserves and insurance (buffer) stocks;

the society's non-productive assets: dwellings and public buildings, scientific and educational institutions, hospitals, sanatoriums, theatres, museums, and clubs with their equipment;

the personal property of the population: dwellings, household furniture, clothing, cars, radio and TV sets, books, etc.;

natural wealth involved in the reproduction process: farming areas, forests, waters, explored mineral deposits, hydro-electric power reserves, etc.

The national wealth, on the one hand, is a major prerequisite for the expanded reproduction of the aggregate social product

and, on the other, its result. That is why the country's national wealth increases with the development of socialist production.

Thus, the Soviet Union's national wealth (minus its lands, subsoil and forests) increased from 1,400 billion roubles in 1970 to 3,600 billion roubles in 1985. In that period, the country's fixed assets increased from 860 billion to 2,340 billion roubles, notably, its fixed productive assets from 530 billion to 1,570 billion roubles and its fixed non-productive assets, from 330 billion to 770 billion roubles.

3. FASTER SOCIO-ECONOMIC DEVELOPMENT AND HIGHER EFFICIENCY OF SOCIALIST REPRODUCTION

The strategic line for an acceleration of socio-economic development in the USSR was put forward at the CPSU Central Committee's plenary meeting in April 1985, and was later developed and approved by the Party's 27th Congress. Its content was spelled out in the Central Committee's Political Report to the 27th Congress. "What do we mean by acceleration? First of all, raising the rate of economic growth. But that is not all. In substance it means a new quality of growth: an all-out intensification of production on the basis of scientific and technological progress, a structural reconstruction of the economy, effective forms of management and of organising and stimulating labour."[1]

The Rates and Proportions of Socialist Reproduction

Growth rates, proportions, structural changes, and production efficiency are highly important indicators showing the development of socialist reproduction.

Let us start with *rates*. Socialism is characterised by generally high and steady rates of production growth. That is due to the fundamental advantages of the socialist economic system, which opens up broad possibilities for rapid economic development. In the USSR, for instance, the average annual rate of industrial growth was 13.6 per cent in the fourth (the first postwar) five-year plan period (1946-1950), 13.2 per cent in the fifth period (1951-1955), 10.4 per cent in the sixth (1956-1960), 8.6 per cent in the seventh (1961-1965), and 8.5 per cent in the eighth (1966-1970). However, in the ninth, tenth and especially

[1] Mikhail Gorbachev, *Political Report of the CPSU Central Committee to the 27th Party Congress*, p. 28.

eleventh five-year plan periods, there was a sharp decline in growth rates, primarily because the extensive factors of growth had been largely exhausted, while intensive factors had not as yet been fully brought into play.

In order to fulfil the tasks set by the 27th Congress for the 12th five-year plan period and for the period until the year 2000, there is to be a steady rise in the rate of the development of the whole economy, including industry. The present line for intensifying production and invigorating the human factor should bring about the necessary acceleration of socio-economic development.

But the development rates of the various industries and regions cannot be the same. Priority is given to those of them which serve to switch the whole economy to the intensive road, which help to raise production efficiency and to meet the country's requirements to a fuller extent. As a result, the *proportions of the national economy* are being improved. The economic structure is also being changed in various other ways. All of this amounts to serious structural changes in the Soviet economy, which are a major factor and indicator of progressive development. These changes primarily affect the balance between consumption and accumulation, between the production of producer goods and consumer goods, between industry and agriculture, the intersectoral and intrasectoral proportions, and the distribution of the accumulation fund.

Accumulation and Consumption

Under expanded reproduction, the aggregate social product is divided into three funds: replacement fund, consumption fund and accumulation fund.

$$ASP = RF + CF + AF$$

The main task of socialist expanded reproduction is to ensure rapid growth of the national income and attain high final economic results so as to meet the requirements of the society and its members as fully as possible. And faster growth of the national income primarily depends on the *balance between accumulation and consumption.*

Under capitalism, there is an antagonistic contradiction between them: accumulation of capital at the pole of the bourgeoisie goes hand in hand with a relative and sometimes even an absolute worsening of the condition of the working class. Poverty among plenty is a reality even in the most highly developed capitalist countries.

In the socialist countries there are no such poles and no antagonism between consumption and accumulation, which are in close interconnection and unity. But there is a non-antagonistic contradiction between them. It is that *an excessive increase in the share of consumption is detrimental to production growth and, consequently, to future consumption, whereas an excessive increase in the share of accumulation is detrimental to current consumption and, consequently, puts a brake on production.*

That is why the planning organs of the socialist countries should also ensure an optimal balance between the consumption fund and the accumulation fund. This is one of the most complicated economic tasks. Whenever it arises, the planners elaborate several alternative versions of its solution, and the best version is then chosen in accordance with the strategy and tactics of socio-economic development. Numerous economic and social factors are taken into account: raw material reserves, the state and dynamics of labour resources, import and export possibilities, the international situation and its development tendencies.

Today, roughly three-quarters of the national income in the socialist countries goes into consumption and one-quarter, into accumulation. If the resources allocated to housing, cultural and everyday construction are added to current consumption, the total resources going directly to ensure the people's well-being will on average amount to about four-fifths of the national income.

During the 10th, 11th and 12th five-year plan periods in the USSR the accumulation fund has been growing slower than the consumption fund. Clearly, a continuation of that tendency would eventually come into contradiction with the general line, aimed at accelerating the country's socio-economic development. So, in accordance with the Guidelines for the USSR's Economic and Social Development for 1986-1990 and for the Period Until 2000, the 12th five-year plan provides for an increase in the share of accumulation in the national income. Over the five years, centralised state capital investments are to go up by 23.6 per cent as compared with 15.4 per cent in 1981-1985, and the share of the accumulation fund in the national income is to go up to 27.6 per cent.

But the main reserve in accelerating social production growth is to *make more efficient use of the accumulation fund.* This will make it possible to increase the production of the national income per rouble of capital investments. The thing to do here, first, is to accelerate scientific and technical progress to the utmost. *Science and technology will play a much more impor-*

tant role in the qualitative transformation of the productive forces, in switching the economy to the road of all-round intensification, and in raising the efficiency of social production. The technical standards of production are to go up radically.

Second, capital construction is to be raised to a qualitatively new level. Over the next decade, the time it takes to build and renovate projects is to be reduced by 30-50 per cent.

Third, steps are being taken to improve the investment policy, with a shift of emphasis from new construction to the technical re-equipment and renovation of existing enterprises, which is much more efficient.

Fourth, social production is being restructured. The national economy is to respond in a prompt and flexible way to progress in science, machinery and technology, and also to changes in requirements. The key role in the scientific and technical revolution is to be played by engineering, primarily the machine-tool industry, the computer industry, instrument-making, electrical engineering and electronics.

Fifth, work is being done to improve the reproduction of labour-power, with a consistent line to modernise the whole system of personnel training and refresher training, and to balance out jobs and labour resources in every industry and region of the country.

Sixth, there is a determined economy drive at every enterprise and workplace.

And seventh, efficiency is being increased not only in production, but also in all the other phases of reproduction: distribution, exchange and consumption.

The radical economic restructuring in the USSR, the need to accelerate socio-economic development, raise the efficiency of social reproduction and improve the relations of production make it necessary to restructure the economic mechanism, which is to be examined in the next chapter.

QUESTIONS FOR DISCUSSION

1. What are the fundamental distinctions between socialist and capitalist reproduction?
2. What is the aggregate social product and the national income?
3. What factors serve to increase the national income? What are its main uses?

Chapter Seventeen

IMPROVEMENT OF THE ECONOMIC MECHANISM AND FASTER SOCIO-ECONOMIC DEVELOPMENT

> The acceleration of the social and economic development of the country demands continuous *improvement in the guidance of the national economy*, reliable and effective functioning of the economic mechanism comprising diverse and flexible forms and methods of management, and their correspondence to changing conditions of economic development and the character of the tasks being fulfilled.
>
> *From the Programme of the Communist Party of the Soviet Union*

The new economic tasks facing the socialist countries cannot be tackled without restructuring the economic mechanism at root.

In this chapter, we shall examine the following questions: What is the economic mechanism? Why does it play such an important role in accelerating scientific and technical progress and the country's entire socio-economic development? Why is it necessary to restructure the economic mechanism today? What are the main lines and principles of its restructuring and improvement?

1. WHAT IS THE ECONOMIC MECHANISM?

The Essence of the Economic Mechanism

The "economic mechanism" is a fairly recent concept as compared with many other categories of political economy. The term was first used by Lenin in his "Original Version of the Article 'The Immediate Tasks of the Soviet Government' ", but it is only over the past 15 years that it has gained full recognition as a legitimate term among social scientists in the USSR. Such "belated" recognition is no accident.

The point is that it is a broad, complicated and constantly developing concept. In the early periods of the Soviet economy, it did not as yet assume the ramified, comprehensive form it has acquired over the past two decades. In the past, science and practice managed to make do with improving its various elements, but then the economy reached a level when for the successful regulation of social production it was not only necessary to make skilful use of each of these elements, to enrich their content and methods of application, but to merge these elements into an organic whole, into an economic mechanism, and to use them in their integrity. With the growing scale and complexity of economic life, this need is ever more imperative. Of course, the various elements of the economic mechanism have always been connected with each other, but now the character of these interconnections and interdependencies has acquired a new quality.

All the forms and methods of planned and balanced organisation of social production constitute the economic mechanism. It includes administration and management, planning and economic incentives in their organic unity. This means that the economic mechanism is a comprehensive concept, which reflects not only economic, but also technico-production and, to some extent, political and juridical relations.

From the politico-economic point of view, one could say that the economic mechanism is primarily a mechanism for the use of the economic laws. That is why its correct organisation is of exceptional importance for efficient use of social property, for the interaction between the productive forces and the relations of production, and for the ultimate realisation of the advantages of socialism. The better the administration, planning and economic incentives system is organised, the faster and more efficient is the development of the socialist economy, whereas any shortcomings in each of the elements of that system or their interaction could hold back and slow down the development of the productive forces and reduce the efficiency of social production. That is why the CPSU and the fraternal parties of other socialist countries attach such an importance to an improvement of the economic mechanism.

The Principles of Socialist Economic Activity

The theoretical principles of the socialist society's economic mechanism were formulated by Lenin. He wrote: "In every socialist revolution, after the proletariat has solved the problem

of capturing power,... there necessarily comes to the forefront the fundamental task of creating a social system superior to capitalism, namely raising the productivity of labour, and in this connection (and for this purpose) securing better organisation of labour."[1] Neither transport nor any enterprises can function normally without unity of will, which brings all the working people together in a single economic organ operating with clockwork precision.

In working out the principles of socialist economic activity, Lenin repeatedly emphasised the principle of the *leading role of the state plan in the economic administration system.* He wrote: "Socialism is inconceivable ... without planned state organisation, which keeps tens of millions of people to the strictest observance of a unified standard in production and distribution."[2] He said at the Seventh Congress of the RCP(B) that it was necessary to transform "the whole of the state economic mechanism into a single huge machine, into an economic organism that will work in such a way as to enable hundreds of millions of people to be guided by a single plan..."[3] On the basis of planning, measures are taken to accelerate scientific and technical progress, to raise labour productivity and production efficiency, and to improve the people's life.

Combination of planning with economic instruments and incentives is one of Lenin's major principles of socialist economic activity. While playing the leading role in the economic administration system, the plan does not embrace all the elements of that system. Moreover, it can neither be implemented nor even drawn up without economic instruments. Economic calculus, price, cost price, profit, wages, etc., have an active influence on the development of production, helping to intensify and make it more efficient.

Lenin's *principle of democratic centralism* is another important principle of socialist economic activity. It is used to realise the immense advantages of centralised economic leadership while developing the independence of enterprises and the initiative of work collectives. Lenin wrote: "We must learn to combine 'public meeting' democracy of the working people—turbulent, surging, overflowing its banks like a spring flood—

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[1] V.I. Lenin, "The Immediate Tasks of the Soviet Government", *Collected Works*, Vol. 27, 1977, p. 257.

[2] V.I. Lenin, " 'Left-wing Childishness and the Petty-Bourgeois Mentality", *Collected Works*, Vol. 27, p. 339.

[3] V.I. Lenin, "Extraordinary Seventh Congress of the R.C.P.(B).", *Collected Works*, Vol. 27, pp. 90, 91.

with *iron* discipline while at work, with *unquestioning obedience* to the will of a single person, the Soviet leader, while at work."[1]

Another crucial principle of economic activity, Lenin believed, is to *give priority to the political approach in tackling economic tasks*. Today, such priority in improving the economic mechanism means that the forms and methods of running the economy are chosen in accordance with the Party's line for accelerating socio-economic development. To take a political stand in tackling economic problems is to put the working people's interests above all else, seek to accelerate scientific and technical progress, and tighten labour and planning discipline. The political approach also implies a resolute and irreconcilable struggle against departmentalism and parochialism, against attempts to contrast personal and collective interests with those of the whole people, against mismanagement, waste and account-padding.

An important principle of socialist economic activity, especially in such a vast country as the USSR, is a *comprehensive approach to running the national economy*. It is particularly important today, making it necessary to harmonise and improve all the units and elements of the economic mechanism.

Now that the task is to carry out a radical reform of the economic mechanism in the USSR, all these principles of socialist economic activity should be scrupulously observed.

2. WHY IS IT NECESSARY TO RESTRUCTURE THE ECONOMIC MECHANISM IN THE USSR?

To understand the causes and content of the restructuring of the economic mechanism that is now under way in the USSR, one should bear in mind two circumstances. First, the administrative system and the whole outgoing economic mechanism mostly took shape in the period from the 1930s to the 1950s. The process was heavily influenced by the concrete conditions of the day, by the tasks that faced the Soviet people in that grim period. The greatest influence was exerted by such factors as the country's limited material and financial resources, the hostile capitalist surrounding, the Great Patriotic War, the postwar economic rehabilitation, and the imperialist-initiated cold war.

In that difficult period, life itself urged the need to give pre-

[1] V.I. Lenin, "The Immediate Tasks of the Soviet Government", *Collected Works*, Vol. 27, 1977, p. 271.

ference to so-called *directive methods of administration*, to centralise the solution of many problems. That made it possible to concentrate the available resources in the hands of the state and use these to resolve such vital problems as industrialisation, creation of heavy industry, technical re-equipment of the economy, build-up of the country's defence capability, and rehabilitation of the war-ravaged economy.

Of course, the economic mechanism did not remain unchanged. Certain changes were made in the system of planned economic administration in the course of the economic reform of 1965, aimed at strengthening the role of economic methods of management, introducing the principles of economic calculus, and giving work collectives a greater say in planning and in the solution of economic problems. The reform was followed by other steps to improve the economic mechanism.

The economic mechanism was not restructured in such a way as to promote efficient interaction of administrative organs on different levels of the economy, to concentrate the attention of each of these on matters within its competence. Until recently, there was widespread petty tutelage of enterprises and local organs, which fettered their initiative.

However at present, as was stressed at the 27th Congress of the CPSU, simply improving the economic mechanism is not enough. It needs to be radically reformed.

In the mid-1980s a number of major economic experiments were carried out in the USSR. These laid the groundwork for the transition to an integrated system for managing the nation's economy.

The main reasons behind the *need to restructure the economic mechanism* could be listed as follows:

first, qualitative changes in the economy itself, manifested in the growing scale of production, its further socialisation, the deepening social division of labour, the growing importance of balanced and concerted development of all economic units, the unfolding scientific and technical revolution, and the need for profound structural changes in the national economy;

second, the need to develop socialist democracy, to foster the working people's sense of being true masters of production, and to involve them on an ever broader scale in running production;

third, the need to overcome a number of negative processes that came to light in the Soviet economy over the past few years;

fourth, untenability of the old notions that production relations under socialism all but automatically give free scope for the development of the productive forces.

Steady development of the productive forces can only be ensured with a constant improvement of production relations. Partial changes in the economic mechanism are not enough to carry the economy forward to a qualitatively new stage in the development of the productive forces. It is time to restructure that mechanism at root.

In the light of the Party's strategic line for accelerating socio-economic development, the need to restructure the economic mechanism is particularly imperative.

3. THE MAIN LINES AND PRINCIPLES FOR RESTRUCTURING THE ECONOMIC MECHANISM IN THE USSR

The 27th Congress of the CPSU elaborated the main lines and principles for radically restructuring the USSR's economic mechanism. It is necessary:

to raise the efficiency of centralised economic administration, increase the role of the centre in realising the main goals of the Party's economic strategy, determining development rates and proportions, and balancing out the national economy. At the same time, petty tutelage of enterprises by higher organs should come to an end;

to give enterprises and associations much greater freedom of action and increase their responsibility for the attainment of maximum final results. With this aim in view, they are to be switched to full economic calculus, with self-recoupment and self-finance, and the incomes of their collectives are to be made fully dependent on the efficiency of their work;

to go over to economic methods of administration and management at every level of the national economy; with that aim in view, to restructure material and technical supplies, improve the price-formation, financial and credit system, and work out effective input-reducing incentives;

to restructure administration on modern organisational lines with regard to the tendencies towards concentration, specialisation and cooperation of production, development of complexes of interrelated industries, intersectoral scientific and technical centres, diverse economic associations, and territorial-production comple es;

to ensure an optimal combination of sectoral and territorial economic administration, comprehensive economic and social

development of the republics and regions, and arrangement of rational intersectoral ties;

to democratise administration and management in every way, increase the role of work collectives in this area, and strengthen control from below, accountability and openness in the work of economic bodies.

In accordance with the principles for restructuring the economic mechanism in the USSR approved by the 27th Congress of the CPSU, industry is being switched to new terms of economic activity and work is being done to improve administration and the economic mechanism in the agro-industrial complex, construction, domestic, and foreign trade, and the consumer cooperative system.

The new terms of economic activity are already yielding results. Practice shows that enterprises working in the new conditions usually increase their production with the same or a smaller number of employed, turn out more progressive types of output, and improve deliveries under contract.

At the same time, practice shows that the task of radical changes in the economic mechanism implies the need not only to switch enterprises and industries to new economic methods, but also to deepen and develop these new methods, notably, at the enterprises where they are already being used. New methods of economic activity embrace all the units of the economic mechanism and, most importantly, are aimed at increasing the role of work collectives.

The System of Plan Indicators and Assessment of the Activity of Enterprises

Targets for the production of output in physical terms play the decisive role among the indicators established for all enterprises in a centralised way. Indicators showing the final results of the activity of enterprises, the efficiency and quality of their work are ever more important. Special attention is focussed on targets for labour productivity growth, cuts in production costs, and higher quality of output.

Greater importance is being attached to the indicator that shows the volume of realised output with regard to the fulfilment of contractual obligations. This indicator expresses the value only of those goods which have been delivered to the consumer under contract.

Here is an example to illustrate this point. An enterprise produces three types of goods, and the following table shows the plan for their production and its fulfilment.

Type of goods	Plan (000 roubles)	Fulfilment (000 roubles)	
		in terms of actually produced output	including plan deliveries under contract
A	500	550	500
B	500	450	450
C	400	450	400
Total	1,400	1,450	1,350

In the past, plan fulfilment was assessed on the strength of the entire realised output, whereas today this is only done with due regard for deliveries under contract. In the past, plan fulfilment in this case would amount to 103.6 per cent, whereas today it is only 96.4 per cent, and this, as we shall find, has a significant influence on the volume of the enterprise's incentives fund. Consequently, the product realisation plan is used to assess fulfilment of contracts.

Fulfilment of contracts is another main indicator used to assess the work of the enterprise. It helps to strengthen contractual discipline, enabling enterprises to play a more important role in balancing out the national economy.

One of the shortcomings of the former economic mechanism was planning from the level attained. Enterprises were interested in holding back reserves, inducing the ministry to set them low-target plans, or correcting the plans downward later on. Today, the economy is going over to normative (rated) planning. The norms (for wages, incentives funds, etc.) are established for a fairly long period and are made known to each enterprise before the plan is drawn up and approved.

Invigorating Economic Incentives

The new economic methods help to make the enterprises more independent and responsible for the *technical re-equipment of production* and for using the funds at their disposal for these purposes. True, even before the reforms, Soviet enterprises had a fund for developing production. Their management, however, was in effect not empowered to use that fund, the whole of which went to cover centralised capital investments.

In the new economic conditions, the situation is to change at root. The enterprise will now have to "earn" its own money for technical re-equipment and will itself decide how to use it. These non-centralised capital investments will have equal status with centralised capital investments and will be entitled to equal material and technical backing.

Managerial personnel, engineers and technicians are being offered greater material incentives to introduce new machinery and turn out higher-quality products. Their responsibility for such measures is also being increased.

The *wages fund* is also being formed on new, normative principles. The size of the fund is established on the basis of actual production indicators attained in the initial (reference) period, and does not change so long as the volume of operations remains the same. The only way to increase that fund is to work better than in the past (reference) period. That is when the wages fund can be increased in accordance with certain norms (rates).

Thus, for electrical engineering enterprises the rate is 0.35 per cent. This means that as the enterprise increases its net output (as compared with the reference period) by one percentage point, its wages fund increases by 0.35 per cent.

The rate is corrected depending on faster or slower growth of labour productivity. Thus, if labour productivity growth at the enterprise slows down, there is a cut in the rate at which its wages fund increases.

The enterprises will now also enjoy much broader powers in *using the wages fund.* They are entitled to introduce wage increments for engineers, technicians, office personnel and workers who hold more than one job. From overall economies in the wages fund, the management of the enterprise can establish increments to the wage rates of workers doing responsible work or for high professional skills. Highly skilled engineers, technicians and office personnel can be paid a 50 per cent increment to their salaries. Naturally, all these increments can be established only within the framework of the wages fund earned by the enterprise.

Significant changes are under way in the system of the formation and use of incentives funds. These funds can be increased depending on improvements in the efficiency indicators reflecting the current performance of the enterprise. The indicators that enable the enterprise to increase its incentives fund differ from one industry to another. Thus, the material incentives fund in engineering depends on cuts in cost price, and in

the light and food industry, on rising profits. For instance, the material incentives fund increases by 5 per cent when cost price is reduced by one percentage point. As in the formation of the wages fund, labour productivity growth rates are also taken into account: if these growth rates tend to increase, incentives funds are formed as usual (at a rate depending on cuts in cost price or rising profits), but if labour productivity growth rates are lower than the year before, the initial size of the fund is reduced.

The material incentives fund is corrected depending on whether the plan targets for contractual deliveries have been met. If the enterprise fulfils its product realisation plan and meets all its contractual obligations, the material incentives fund is increased by 15 per cent. But if it does not meet its delivery targets, its material incentives fund is reduced by 3 per cent (which is three times as much as under the old system) for every percentage point of the shortfall.

In the new conditions, the range of *benefits and sanctions for product quality, deliveries of complete equipment, the state of inventories*, and other indicators of the collective's performance has been extended.

An analysis of the work of enterprises shows that the new methods of economic activity help to accelerate production growth, to reduce product costs, and raise production efficiency.

Improvement of Administration and Management

Improvement of the organisational structure, administration and management of production is a major element of the work being done to restructure the economic mechanism. The main line of that improvement is to draw a distinction between the functions of the centre and the main production unit, the enterprise or association. It is a matter of developing the principle of democratic centralism in administration and management: increasing the efficiency of centralised economic leadership and strengthening the role of the central organs, on the one hand, and enhancing the independence and responsibility of enterprises, on the other. In order to ensure the most efficient interaction of various sectors, to tie in territorial and sectoral interests, large complexes have been set up in the national economy: agro-industrial, construction and engineering.

The central administrative organs are to play a greater role in ensuring proportions and balancing out the economy, with an optimal correlation of state, sectoral and regional interests.

At the same time, resolute steps are being taken to end the practice of petty tutelage with regard to enterprises, give them greater independence, and increase their responsibility for attaining the highest results. Rapid changes are under way in the main production unit, and steps are being taken to develop associations, integrated works and large economic-calculus complexes.

The advantages of the new system are incontestable: it helps to make more efficient use of economic laws, perfect production relations, unfetter the productive forces, and accelerate the country's socio-economic development.

But successful work under the new economic system depends not only on improvements in plan indicators or use of modern managerial methods. It is just as important for every working person to understand the tasks that face him and his work collective, to make a correct assessment of these tasks, and find his concrete place in their solution. To ensure the successful functioning of the new economic mechanism, it is necessary to bring out the immense potentialities of the working masses, to offer them greater material and moral incentives, increase their responsibility and invigorate their involvement in the solution of economic and social problems.

QUESTIONS FOR DISCUSSION

1. What is the economic mechanism in the socialist society? What are its main units?
2. Why is it necessary to restructure the economic mechanism in the USSR in the 1980s?
3. What are the main principles of socialist economic activity?
4. How do the new economic methods help to accelerate technical progress at the enterprise?
5. How are the enterprise's wages fund and material incentives fund formed in the new conditions?

Chapter Eighteen

AGRARIAN RELATIONS AND THE DEVELOPMENT OF THE AGRO-INDUSTRIAL COMPLEX

> An indispensable condition for social and economic progress is the further strengthening and improved efficiency of the agro-industrial complex, and a full satisfaction of the country's requirements in its produce.
>
> *From the Programme of the Communist Party of the Soviet Union*

One of the most important programmatic objectives of the CPSU is solving the food problem. As the 19th CPSU Conference declared, this is now the most acute problem in Soviet society. The task of high priority now is to satisfy people's demand for nutritious food stuffs and saturate the market with the needed variety of high quality consumer goods and services.

The conference determined the shortest and most reliable route to food sufficiency to be the broad introduction throughout the country of leasing and other effective means of organising and encouraging labour. This is the cornerstone of the agrarian policy.

In this chapter, we shall examine the agro-industrial complex (AIC), rent relations and the specific features of economic calculus in agriculture; the new economic mechanism and ways of raising the efficiency of the AIC.

1. WHAT IS THE AIC?

The agro-industrial complex under socialism includes agriculture and related spheres of the economy which service agriculture, process farm produce and deliver it to the consumer.

The AIC consists of three spheres:

1. Production of industrial producer goods for agriculture (industries producing tractors, machinery for livestock breeding

and feed production, other agricultural machinery; the mixed-feed and microbiological industry, production of mineral fertilizers and chemical pesticides), and production and engineering services to agriculture.

2. Production of agricultural produce, that is, agriculture proper with its two main branches: cropping and livestock breeding.

3. Procurement, processing, storage and marketing of farm produce.

The USSR's agro-industrial complex is among its major multisectoral complexes. In the mid-1980s, it employed 48.6 per cent of the total labour force in the sphere of material production. The AIC's final product comes to about 75 per cent of the overall fund of retail trade. It accounts for 96 per cent of the country's food products, and 37 per cent of all products other than food, and yields about 45 per cent of the country's total surplus product. Consequently, fulfilment of the basic economic law of socialism—that of the people's steadily rising living standards—is directly dependent on the development of the AIC, which makes it possible to implement the social programme, to eliminate the essential distinctions between town and country, and to bring living standards in town and country closer together. That is why one of the major programmatic tasks of the communist parties in the socialist countries is to raise the efficiency of the AIC.

The Reasons for the Emergence of the AIC and Its Development Stages

The deepest reason for the emergence and development of the AIC is the growing socialisation of production, manifested in its specialisation and cooperation.

Intensive structural reforms are now under way in all the sectors of the economy. These unfold along two dialectically interconnected lines.

On the one hand, production is being specialised to an ever greater extent, with the formation of new industries and sub-industries. This objective process has given rise to such industries as the production of agricultural machinery and equipment, mineral fertilizers and pesticides, rural construction, the mixed-feed and microbiological industry, material and technical supplies to agriculture, and so on. Specialisation within agriculture itself has led to the emergence of a whole range of

branches in cropping and livestock breeding. That is conducive to raising the technical level of production, labour productivity and production efficiency.

On the other hand, specialisation inevitably leads to a more intensive exchange of products between separate specialised industries, to greater cooperation between them. In the Soviet Union, something like 60 industries take part in servicing and producing means of production for agriculture, and roughly 60 per cent of all material inputs in agriculture are of industrial origin. That is why the deeper the specialisation, the wider is inter-farm cooperation and agro-industrial integration.

Inter-farm cooperation was the first stage of integration in agriculture. In the late 1950s and early 1960s, many inter-farm enterprises and organisations were set up in Soviet agriculture: inter-farm building organisations, livestock and poultry-breading farms, feed mills, large fruit storage facilities, processing factories, forestry farms run by two or more collective or state farms, and so on. From 1970 to 1980, their number more than doubled (from 4,580 to 9,638).

The second stage in the development of inter-farm cooperation and integration of agriculture with industry was the formation of *agro-industrial enterprises and associations.* These have developed on a large scale in all the European socialist countries. In 1980 the Soviet Union had over 500 agro-industrial associations.

The CPSU Central Committee's plenary meeting in May 1982 adopted the USSR Food Programme. Under its decisions, district agro-industrial associations were established in all districts of the country, and corresponding associations were set up in the regions, areas and autonomous republics. Under the presidiums of the councils of ministers of the Union Republics and the USSR Council of Ministers, AIC commissions were set up.

But the district and regional agro-industrial associations were not efficient enough. In effect, the land was without a real master. The economic mechanism for the partners' interaction did not operate smoothly. Suppliers of agricultural machinery and chemicals, land improvement, procurement and processing enterprises were subordinate to the agro-industrial associations only nominally. They were not responsible for the final result: for the actual crop and the output of livestock farming. Measures had to be taken to make it possible to run, plan and finance the agro-industrial complex as a single whole on every level.

But whatever resources are pumped into agriculture, they will not have the proper effect if the social development of rural areas is ignored. That is why the Communist Party and government are taking important steps to improve the working and living conditions of the people living in rural localities.

The 19th CPSU Conference declared that the current agrarian policy is now essentially to alter production relations in the rural areas themselves. It aims to restore the economic balance between town and country, to fully tap the potential of collective and state farms by developing various forms of contracting and leasing, and to make the peasant the full master of the land.

2. RENT RELATIONS AND THE SPECIFIC FEATURES OF ECONOMIC CALCULUS IN AGRICULTURE

Agriculture constitutes the basis of the agro-industrial complex. It accounts for 64.5 per cent of the AIC's production assets and 63 per cent of its labour force. So, if one is to understand the economic mechanism of the AIC and the main ways of its formation and improvement, one should first examine the specific features of agricultural production and economic relations in the agrarian sector.

The Specific Features of Agricultural Production and Rent Relations

The production process in agriculture has a number of *specific features* as compared with industry. First, the basic means of production in agriculture is land. And since the natural properties of land are not the same, the conditions of economic activity on it differ widely. Second, the land area is limited, which also influences the terms of economic activity. Third, there are wide distinctions in natural and climatic conditions. All of that affects farm produce costs, the production and distribution of the necessary and the surplus product and, consequently, income levels and reproduction. And fourth, agricultural production has a pronounced seasonal character.

Since the availability of land (especially the best land) in agriculture is limited, it is necessary to cultivate relatively worse land as well. The outlays on the worst cultivated tracts of land are seen as socially necessary. That is why the social value of farm produce is determined by the costs of the farms which

turn out produce on inferior tracts of land under average, socially normal economic conditions.

The farms that use the better land are at an advantage. With the same labour inputs, they turn out more produce. Thus, grain yields per hectare in different zones of the USSR with roughly the same labour inputs differ as much as five times, and potato yields, four times. That is why farms with better soil and climatic conditions produce an additional surplus product alongside their normal product. On state farms, this surplus product is appropriated by the state. On collective farms, it forms *differential rent.*

There are two types of differential rent. *Differential rent I* is connected with differences in natural fertility and location. Since it does not result from the more efficient operation of this or that farm, it is appropriated into the state budget. This is done by differentiating the purchasing prices for farm produce. On the territory of the USSR, for instance, there are over 100 price zones for wheat, 73 for milk, 62 for cattle, and so on. By establishing different prices for a unit of output produced in different zones, the state in a way evens out the conditions of farms' economic activity. That is why formation of purchasing prices is a matter of great socio-political, as well as economic importance.

Differential rent II is the additional surplus product connected with more efficient farming on one and the same tract of land, improvements in machinery and farming techniques, use of mineral fertilizers, irrigation, etc., that is, with intensification of production.

It often happens that two neighbouring farms located on similar soil have totally different crop yields. The farmers on one of these choose the right time to do the sowing, apply optimal amounts of organic and mineral fertilizers, use sprinkling systems, etc. while those on the other do not. Clearly, the first farm will have much higher yields than the second. It will receive an additional surplus product not only as compared with its shiftless neighbour, but also with average farms in the same zone. That additional surplus product will constitute differential rent II.

Since that rent is evidently earned by the farm, it should largely belong to it as well. In practice, it is appropriated by the farms through higher state purchasing prices for the sale of produce over and above the plan, quality produce price mark-ups, and so on. As a result, well-operating farms receive higher profits, their farmers are better paid, and they can increase their

material incentives and socio-cultural funds. So, every farmer is interested in intensifying production, improving farming practices, raising crop yields and productivity in livestock breeding, and reducing the costs of the produce.

3. THE NEW ECONOMIC MECHANISM AND HIGHER EFFICIENCY OF THE AIC

The Price System and Economic Calculus in Agriculture

Stronger economic calculus is a major instrument in developing agriculture and raising the efficiency of the AIC. And that is determined by two factors: mobilisation of internal reserves and the prices of farm produce and means of production.

Since the CPSU Central Committee's plenary meeting in March 1965, the purchasing prices for farm produce in the USSR have been repeatedly increased. Under a new economic incentives system introduced in 1981, purchasing prices for produce turned out over and above the average level attained by the farm in the preceding five-year period include a 50 per cent mark-up.

An economically substantiated price system implies incentives to improve the quality of farm produce. That is why purchasing prices are differentiated with due regard for quality.

In the USSR, for instance, durum wheat is purchased at the price of soft wheat plus a mark-up depending on class: 100 per cent for first-class, 70 per cent for second-class, and 20 per cent for third-class wheat. Strong varieties of wheat are purchased at the price of soft wheat with a 30 to 50 per cent mark-up depending on the content and quality of glutten. The purchasing prices for well-fed cattle, sheep and goats are 20 per cent higher than those for moderately nourished animals, while the purchasing prices for subnourished cattle are 25 per cent lower, and those for lean (substandard) cattle—40 per cent lower than the prices for moderately nourished cattle.

The CPSU Central Committee's plenary meeting in May 1982 adopted measures to extend the use of economic instruments in order to improve conditions for the work of collective and state farms, especially low-profit and loss-making farms.

In January 1983, the state raised purchasing prices for cattle, pigs, sheep, milk, grain, sugar beet, raw cotton, potatoes, vegetables and other farm produce. Price mark-ups were introduced for produce turned out in worse natural and climatic conditions, on low-profit and loss-making farms. The state's outlays

for these purposes totalled 16 billion roubles a year, with roughly 6.2 billion roubles of that going to raise the purchasing prices of staple farm produce and 9.8 billion roubles—to pay out purchasing-price mark-ups to loss-making and low-profit collective and state farms. Purchasing prices were raised by the state without any increase in the retail prices of food.

The Economic Mechanism of the AIC

The tasks formulated by the 27th Congress of the CPSU called for resolute improvements in the activity of all the units of the AIC. The economic mechanism that was in operation until the mid-1980s, the old methods of planning and incentives did not do enough to orient collective and state farms and other AIC enterprises and organisations towards fuller use of their production potential or broader application of scientific and technological achievements and progressive know-how.

The steps to perfect the economic mechanism of the AIC are pivoted on *improvements in production planning*, with a transition to the more progressive normative methods. Plans on every level are to be drawn up with due regard for an economic assessment of the land, the availability of production assets, labour and other resources, and in accordance with scientifically substantiated norms. By way of experiment, such methods of planning have been tried out and approved in various regions, areas and republics of the country.

In the 12th five-year period, stable annual plan targets for grain sales (on the level of the 1986 plan targets) have been set for each farm. State and collective farms and other agricultural enterprises which have met these targets are entitled to sell the grain they have produced over and above the average annual level of the 11th five-year period with a purchasing-price mark-up of 100 per cent, while those which have exceeded the level of the 11th five-year period without fulfilling their plan are entitled to a 50 per cent mark-up.

Farms which surpass their plan targets for grain sales to the state are to be sold more vehicles, tractors, some types of farm machines in high demand, etc.

In order to give the local bodies of power a greater stake in increasing the production of foodstuffs and improving food supplies to the population, it has been decided to leave at the disposal of the councils of ministers of Union Republics, the councils of ministers of autonomous republics, and the executive committees of areas and regions all the meat, milk and other produce remaining after the plan targets for pro-

duce deliveries to the Union and republican funds have been met.

The plans for collective and state farms and other agricultural organisations now take into account the development both of social production and personal subsidiary farms run by persons living on their territory.

Payment of purchasing-price mark-ups to low-profit and loss-making collective and state farms operating under worse natural and climatic conditions has been extended until 1990. In order to back up the financial position of some enterprises, repayment of State Bank loans totalling 30 billion roubles has been postponed until 1995.

To reduce the losses of fruits and vegetables and push down prices on the collective-farm market, the state agro-industrial committees of the Union and autonomous republics and the agro-industrial committees of the areas and regions are entitled to establish their own retail prices for fruits and vegetables being sold through their own outlets. Up to 30 per cent of the planned procurements of fruits and vegetables, and also all farm produce turned out over and above the plan can now be sold by state and collective farms and other agricultural enterprises to consumer cooperatives and through collective-farm markets at contractual prices.

The Reserves of Raising AIC Efficiency and Development of Economic Calculus

The measures being taken by the CPSU and the Soviet government to assist collective and state farms, especially those operating under adverse natural conditions, are aimed at increasing the production of farm produce and boosting the economy of AIC enterprises. Over the past few years, the financial position of collective and state farms has somewhat improved.

Today, one collective farm in three and one state farm in four have a profitability of over 25 per cent, and one farm in ten, over 40 per cent. But over 47 per cent of the country's farms make a loss in potato growing, and 42 per cent in cattle breeding. The state cannot keep raising purchasing prices, since for some types of farm produce these are already higher than retail prices. In 1980, budget subsidies per kilogram of produce came to 2.04 roubles for beef, 1.94 roubles for mutton, and 2.81 roubles for butter, whereas in 1983 the figures were 2.99, 2.77 and 4.38 roubles respectively.

The main line in raising the profitability of collective and state farms and other AIC enterprises is not to raise purchasing

prices, but to reduce production costs through intra-farm specialisation and concentration of production, better use of machinery, feed, fuel and other resources, better labour organisation, higher discipline, and smaller losses of farm produce in the course of harvesting, transportation, storage and processing.

A major reason of rising costs is faster growth of remuneration against labour productivity.

Under a decision adopted by the CPSU Central Committee and the USSR Council of Ministers in March 1986, wage funds since 1987 are being formed by the farms themselves on the basis of stable five-year rates per 100 roubles of realised (gross) output. This should ensure faster growth of labour productivity as compared with remuneration. Economies in the wages fund are to be equally divided between the farm's material incentives fund and its reserve fund, while overexpenditures are to be compensated from these funds or, wherever these are inadequate, from cuts in the bonuses paid out to the farmers.

Economic calculus and the collective contract are highly important in raising production efficiency. Practice shows that when farmers work under collective contracts, crop yields and livestock productivity go up by 15-25 per cent, and labour productivity doubles. The CPSU Central Committee and the USSR Council of Ministers have instructed the USSR Gosagroprom and its local organs to switch all the production units of agricultural, processing and other enterprises to collective contracts and economic calculus, and to do that as soon as possible. Collective and state farms and other state agricultural enterprises are also entitled to use the family contract.

Farmers working under collective contract are entitled to receive up to 25 per cent of the output produced over and above the contract, either in kind or, if the farmer so desires, in cash (with the value of that output assessed in retail prices).

New remuneration patterns have been established for managerial personnel, specialists and office workers employed by state farms and other state agricultural enterprises. They are now paid on the basis of rates (norms) depending on the sales. During the year, they get an advance amounting to 80 per cent of their established salary. Once the year is over, there is a final settlement in accordance with the existing rate and the sales. Similar payment procedures have been established for the administrative personnel and specialists of the district agro-industrial associations and the agro-industrial committees of the autonomous republics, areas and regions, except that

they get an advance amounting to 90 per cent of their salary.

In order to give managerial personnel, specialists and office workers employed by the state farms and other state agricultural enterprises a greater stake in saving material and manpower resources and increasing production efficiency, they are paid bonuses from the material incentives fund or, where it is inadequate, from the wages fund: 0.1 per cent of the monthly salary for every percentage point of profitability and 0.5 per cent of the monthly salary for every percentage point of profitability growth over the level attained in the preceding five years. Bonus systems have been introduced for the managers, specialists and office personnel of district repair shops and other enterprises servicing the farms.

The essence of the new economic mechanism is that it offers all those involved in the AIC greater incentives to improving the final results. *Remuneration depending on gross earnings* has proved to be particularly progressive. Under that system, economic targets for primary work collectives have been reduced to a minimum number of indicators: planned volume of output, expenditures on its production, and rate of deductions for remuneration from gross earnings. That is the most cost-effective form. It closely ties in material incentives with labour productivity growth and economies in material resources.

A resolution adopted by the CPSU Central Committee and the USSR Council of Ministers in March 1986 established stable rates for payments into the budget from state-farm profits and income taxes for collective farms. State and collective farms now also enjoy much broader rights to State Bank credits for the construction, renovation and technical re-equipment of production facilities and for purchasing agricultural machinery.

Particularly great reserves of higher efficiency can be tapped by going over to *intensive farming techniques*. Their correct introduction enables farms and even whole districts to increase their grain yields by 8-14 centners per hectare. In 1986, progressive techniques were used to cultivate 31 million hectares of grain crops, and over the next few years these areas are to be extended to 60 million hectares.

The measures being taken to improve the economic mechanism are meant to increase production and improve the supply of food to the population and of agricultural raw materials to industry.

QUESTIONS FOR DISCUSSION

1. What is the AIC? What are the reasons for its formation and what are its main elements?
2. What are the specific features of economic relations in the AIC?
3. Why is it necessary to establish zonal prices for farm produce?
4. Why is it necessary to subsidise some agricultural products from the budget?

Chapter Nineteen

THE WORLD SOCIALIST ECONOMIC SYSTEM

> In proportion as the exploitation of one individual by another is put an end to, the exploitation of one nation by another will also be put an end to. In proportion as the antagonism between classes within the nation vanishes, the hostility of one nation to another will come to an end.
>
> *Karl Marx, Frederick Engels*

The consolidation of the world socialist system plays an important role in accelerating the economic and social development of the socialist countries and in strengthening world peace. The CPSU Central Committee's Political Report to the Party's 27th Congress says: "The destinies of peace and social progress are now linked more closely than ever before with the dynamic character of the *socialist world system's economic and political development*. The need for this dynamism is dictated by concern for the welfare of the peoples. But for the socialist world it is necessary also from the standpoint of counteraction to the military threat. Lastly, it helps demonstrate the potentialities of the socialist way of life. We are watched by both friends and foes. We are watched by the huge and heterogeneous world of developing nations. It is looking for its choice, for its road, and what this choice will be depends to a large extent on socialism's successes, on the credibility of its answers to the challenges of time."[1]

The world socialist economic system is pivotal to the unity and cohesion of the socialist countries. What is that system? What are the laws and perspectives of its development? What are the main ways of deepening the economic cooperation of the socialist community countries and making it more efficient?

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[1] Mikhail Gorbachev, *Political Report of the CPSU Central Committee to the 27th Party Congress*, pp. 87, 88.

In this chapter, we shall examine the new type of world economy, economic cooperation and socialist integration, and the new horizons of cooperation.

1. A NEW TYPE OF WORLD ECONOMY

What Is the World Socialist Economic System?

The world socialist economic system comprises the national socialist economies in their interconnection and interaction. It represents a new type of international organisation of production and exchange, based on public property in the means of production.

The formation and development of the world socialist economic system is a complicated and multifaceted process. It involves a sharp struggle not only against reactionary internal forces and, in many countries, against historically conditioned economic and technical backwardness, but also against world imperialism, which has been doing all it can (from economic pressure and ideological subversion to the staging of counter-revolutionary coups) to stifle existing socialism.

The emergence and development of the world socialist economic system is a result of the operation of objective *socio-economic laws.*

Internationalisation of the productive forces provides the material basis for its emergence. Lenin pointed out that the tendency "towards the creation of a single world economy, regulated by the proletariat of all nations as an integral whole ...already revealed itself quite clearly under capitalism and is bound to be further developed and consummated under socialism".[1]

Successes in Economic Development

Before the people's democratic revolutions, most countries of the world socialist system were agrarian, economically underdeveloped ones.

In Romania, for instance, 72.3 per cent of the whole population in 1934 was employed in agriculture, and only 7 per cent in industry. In pre-war Poland, only 3 million of the country's 35 million population were employed outside agriculture, and only 800,000 in industry. These countries were among the

[1] V.I. Lenin, "Preliminary Draft Theses on the National and the Colonial Questions", *Collected Works*, Vol. 31, 1977, p. 147.

poorest in Europe. The Second World War did immense damage to the economy of the East European countries. By the time it was over, industrial production had dropped to one-third of the prewar figure in Hungary, two-fifth in Romania, one-half in Czechoslovakia, and 12 per cent (of the 1935 figure) in the GDR. There were great human losses.

With the victory of people's democratic and then socialist revolutions, the peoples of these countries took a new road of development. In a short historical period and in spite of internal and external difficulties, the socialist countries made great progress in economic, scientific, technological and cultural development and in raising the people's living standards.

From 1960 to 1985, industrial production in the socialist countries increased 5.3 times, and in the developed capitalist countries, only 2.6 times. In that period, the average annual rate of industrial growth was 6.9 per cent in the socialist countries and 3.9 per cent in the developed capitalist countries, and that of the national income, 5.4 and 3.7 per cent respectively.

The once-backward agrarian countries had developed into industrial-agrarian countries with an advanced industry and modern agriculture.

Take Bulgaria. In 1939, over 80 per cent of its population was employed in agriculture, while industry was poorly developed. Per head output was 42 kwh of electric power, 3 kg of iron ore, and 1 kg of steel a year. Having taken the socialist road and relying on the assistance of the Soviet Union and other fraternal countries, the People's Republic of Bulgaria has become a developed industrial-agrarian state. In 1983, its gross industrial output was 84 times as high as in 1939, with the production of producer goods multiplying 230 times, and that of consumer goods, 42 times.

How can one explain the socialist countries' impressive successes in many fields of social life? What is the source of their rapid advance along the road of progress? The answer to these questions is highly important not only for improving the practice of international socialist cooperation, but also for the working people of the capitalist and especially the developing countries.

The crucial internal factors of progress in the socialist economy were examined in earlier chapters. But there are also external factors connected with the formation and development of the world socialist economic system: international socialist division of labour and operation of the economic laws of socialism in international economic relations.

The Economic Laws of Socialism

Relations between the national economies within the world socialist system are based on objective economic laws. The

system of economic laws regulating relations between the fraternal countries includes, first, laws which operate both on the scale of the community as a whole and within each particular country, and second, those operating solely on the scale of the community. Let us take a closer look at them.

When the *laws of the first group* leave the framework of the national economy and operate in the international arena, they acquire certain specific features, expressed in special forms and methods of their use.

In this area as well, the whole system of laws is pivoted on the basic economic law of socialism, which determines the socio-economic essence of all the lines of international economic cooperation among the socialist countries and provides a basis for asserting relations of friendship and cooperation among the peoples, for the development of socialist internationalism. And all the measures being taken to deepen the economic cooperation are ultimately aimed at raising production efficiency and living standards in the socialist countries. But the mechanism of its operation here is different. Within the country, the basic economic law is realised through wage rises and growth of social consumption funds, whereas in the international arena it mostly operates through rising labour productivity and the efficiency of national production.

The law of balanced, proportional development also manifests itself in a different way. Within each socialist country, its use is based on social (mostly state) property in the means of production and takes the form of central planning, whereas on the scale of the world socialist system joint planning activity mostly takes the form of coordination of economic ties and relations.

The law of value, too, operates within the world socialist economic system with its own specific features. What are these features? First, international exchange is based on the international value of this or that commodity. Second, the principle of equivalence in the international exchange of goods and services should be more scrupulously observed than within each of the socialist countries, for the parties involved are different property owners (sovereign states). Third, the world capitalist market exerts a stronger influence on price levels in international exchange. Where goods are overpriced, the buyer will be interested in buying such goods on the capitalist market, and where they are underpriced, the seller will not be interested in selling his goods on the world socialist market.

One of the main tasks in improving economic cooperation

among the socialist countries is to raise economic efficiency. That purpose is served not only by the laws listed above, but also by the law of saving time and other laws.

The *laws of the second group*, which operate solely on the scale of the world socialist economy, include a deepening of the international socialist division of labour, specialisation and cooperation of production, a gradual approximation and evening out of the socialist countries' economic development levels; and ever deeper and closer links among the socialist economies. The advantages of the world socialist economic system over the capitalist system are evident in the operation of these laws.

2. ECONOMIC COOPERATION AND SOCIALIST INTEGRATION

From Cooperation to Integration

Before the Second World War, economic ties between the East European countries were quite weak. In 1938, 86 per cent of the entire foreign trade of Bulgaria, Hungary, Romania and Czechoslovakia was done with what are now capitalist countries; their mutual trade came to 12-13 per cent, and trade with the Soviet Union, to 1 per cent. Since the war, the socialist countries have not only expanded their external economic ties, but have changed their content and direction in a radical way.

In 1984, the share of the socialist countries in Bulgaria's foreign trade was 77.7 per cent; the figure was 78.2 per cent for Czechoslovakia, 65.2 per cent for the GDR, 53.6 per cent for Hungary, 72.1 per cent for Poland, 52.3 per cent for Romania and 57.5 per cent for the USSR. At the same time, the share of the developed capitalist countries in Bulgaria's trade shrank to 12.2 per cent, and in that of Czechoslovakia, to 16.6 per cent.

The forms of economic cooperation among the socialist countries were also developing. In 1944 and 1945, there were only one-way deliveries from the Soviet Union to help the fraternal countries to rehabilitate their war-ravaged economies. The earliest long-term trade agreements were signed in 1948 and 1949.

In 1949, in the conditions of the imperialist-initiated Cold War and trade boycott, the fraternal socialist countries formalised their economic union by setting up the *Council for Mutual Economic Assistance (CMEA)*. The CMEA is a totally new and unique international economic organisation, operating on the principles of a new type of international economic relations:

socialist cooperation and fraternal mutual assistance. The CMEA is an open international organisation and can be joined by any country which shares its goals and principles and which pledges to abide by its Charter.

In 1985, the CMEA included ten socialist countries: Bulgaria, Cuba, Czechoslovakia, GDR, Hungary, Mongolia, Poland, Romania, the Soviet Union and Vietnam. Since 1964, Yugoslavia has taken part in the work of some of its agencies. In two decades, the CMEA countries' trade with Yugoslavia increased 19-fold, to 8.5 billion roubles a year. The CMEA has cooperation agreements with Finland (1973), Iraq and Mexico (1975), the Republic of Nicaragua (1983), and the People's Republic of Mozambique (1985). Angola, Afghanistan, Ethiopia, the Democratic People's Republic of Korea, Laos, and the People's Democratic Republic of Yemen have observer status in some of the CMEA's organs. The CMEA maintains contacts with 60 international organisations, and has official representation in the UN General Assembly, the UN Economic Commission for Europe (ECE), the UN Economic and Social Commission for Asia and the Pacific (ESCAP), the UN Conference on Trade and Development (UNCTAD), and the UN Industrial Development Organisation (UNIDO).

The CMEA countries cooperate with over 100 developing states, and that cooperation is ever more stable. In 1985, they were helping 92 developing countries to build 4,600 industrial and other economic projects, with roughly 90 per cent of the total funds going into the production sector, notably, over 50 per cent into various branches of heavy industry.

Ever since the CMEA's formation, economic cooperation among its member-countries has played an important role in economic construction. It helped the member-countries to build up industries constituting the backbone of the industrial complex of any developed state.

In the late 1960s, the development of the productive forces in the socialist community countries and their mutual economic cooperation reached a level when the old forms and methods of cooperation were no longer sufficient for tackling the new tasks that faced the fraternal countries. The thing to do was to make wider use of the advantages of the socialist economy, to direct the processes of socialist cooperation in a purposeful way. The CMEA's 25th session in July 1971 adopted a Comprehensive Programme for the Further Deepening and Improvement of Cooperation and Development of Socialist Economic Integration among the CMEA Countries.

Socialist economic integration is a process of international socialist division of labour among the CMEA countries, approximation of their economies, formation of modern highly efficient national economic structures, a gradual evening out of their economic development levels, and formation of profound and

stable ties in the main branches of the economy, science and technology. That process is being consciously regulated and balanced out by the communist and workers' parties and the governments of the CMEA countries.

Production Cooperation

The economic cooperation and integration of the socialist countries is based on the *international division of labour*, that is, specialisation of individual countries in the production of certain types of output, which these countries exchange.

Interstate specialisation develops in two main forms: intersectoral and intrasectoral. *Intersectoral specialisation* is usually based on the specifics of natural, soil and climatic conditions. Cuba, for instance, specialises in the production of sugar and citrus fruit. Intersectoral specialisation is widespread in the fuel and raw-material industry and in agriculture. Under *intrasectoral specialisation*, individual countries specialise in the production of certain types of output, assembly units or plant within the framework of one and the same industry.

Availability of labour resources and production traditions are among the other important factors in production specialisation. But the most important factor today is the scientific and technological revolution. It calls for immense outlays on research and development (R&D), sharply increases the product mix and the scale of production.

World engineering, for instance, now produces over 600,000 basic types of machinery. That is why the urge to produce everything at home is not only much too expensive and inefficient, but is simply impossible. The scientific and technological revolution also determines the size of the enterprises. In the modern automobile industry, for instance, it is only plants which produce no less than a million cars a year that can compete on the world market. Of course, there are cars in every country. But this does not mean that every socialist country should build its own motor works, for there is a simpler way to solve this problem: by pooling the efforts of several countries, with each of these specialising in the production of certain parts and units, and their assembly at modern enterprises in one or two countries.

Since the adoption of the Comprehensive Programme of Socialist Economic Integration in 1971, there have been steady improvements in the sectoral structure of industry in the CMEA

countries. Industries crucial to scientific and technical progress —engineering, radio electronics, the chemical industry—have been developing faster than the rest. The sectoral specialisation of production has become more pronounced.

The USSR, Czechoslovakia and the GDR now produce about 72 per cent of all the metal-cutting lathes produced in the CMEA countries, the USSR and Poland—over 90 per cent of the excavating machines, the USSR and Czechoslovakia—over 92 per cent of the looms, Hungary and the USSR—over 80 per cent of the buses, the USSR, Poland and Romania—94 per cent of the tractors, the GDR and the USSR—85 per cent of the railway passenger coaches, and Romania and the USSR—97 per cent of the blast-furnace equipment.

The historical record shows that owing to international specialisation and cooperation of production with the Soviet Union and among themselves, the European socialist countries have scored great successes in industrial development, building up modern industries.

Thus, Poland and the GDR have developed a modern shipbuilding industry. At the GDR's shipyards, the lot production index for dry cargo vessels is three times as high as in the FRG or Denmark. In the mid-1970s, when the world capitalist shipbuilding industry was in deep crisis and Japan, the world's largest shipbuilding country, reduced its exports from 13.9 million tons in 1975 to 3.4 million tons in 1980, while ship prices fell sharply, Poland's deliveries of ships to the USSR (at stable prices) in 1976-1980 increased by one-quarter over the preceding five years. Poland's exports of ships and shipping equipment to the USSR came to 300 million roubles in 1960-1965, 500 million in 1966-1970, 800 million in 1971-1975, 1,000 million in 1976-1980, 1,200 million in 1981-1985, and in 1986-1990 these are to go up to 3,000 million roubles.

Owing to production specialisation and cooperation, Bulgaria has become the main supplier of battery-powered trucks and telphers to the other CMEA countries, Hungary of buses, the GDR of passenger railway coaches, Poland of excavating machines, and Czechoslovakia of trucks.

International socialist cooperation helps to concentrate production, makes it possible to turn out larger batches of output, improves its quality, perfects machinery, technology and production organisation, boosts social labour productivity, and reduces production costs.

Ever wider use is being made of cooperated deliveries of parts and assembly units from one country to another in return for finished products. Thus, Bulgaria, Czechoslovakia, the GDR, Hungary, Poland and Yugoslavia supply the Volga Auto Works with various parts and assembly units in return for an equivalent number of cars. Estimates show that such specialisation makes it possible to turn out 6 to 10 times larger batches of parts and units, helps to increase labour productivity 3 to 5 times, and reduces cost prices by 30-50 per cent.

Among the other major forms of production cooperation are technical assistance in building economic projects, joint

formation and use of science-production enterprises and organisations, and exchange of know-how.

As a result of production cooperation, the partner countries are building or have already built such unique projects as the Druzhba oil pipeline and the Soyuz gas pipeline, a joint electric power grid, 750 kw electric power lines from the USSR to Hungary, Poland, Bulgaria and Romania, the Ust-Ilimsk cellulose mill, the Kiembai asbestos, Kingisepp phosphorite and the Krivoi Rog mining works in the USSR, the Erdenet copper and molybdenum works in Mongolia, nickel works in Cuba, and nuclear power plants in a number of countries.

But the scale, level and existing structure of production cooperation still fall short of the growing demands, while the level of concentration in many industries is still not up to world standards. It is ever more imperative to overcome the largely intersectoral approach to the division of labour, which is still mostly confined to ever larger deliveries of fuel and raw materials in exchange for manufactures, and to deepen the intrasectoral division of labour.

Scientific and Technical Cooperation

Joint efforts in the field of scientific and technical progress are a major form of strengthening economic ties and deepening socialist economic integration among the CMEA countries. At first, that was mostly achieved through an exchange of scientific and technical documentation, whereas today the focus has been shifted from the exchange of scientific and technical results to research and development proper. That is done, in the first place, by joining the efforts of researchers for a solution of the most important scientific and technological problems. Such cooperation is u der way, for example, at the Joint Institute for Nuclear Research in Dubna and the International Institute for Economic Problems of the World Socialist System.

Concentration of efforts and resources in the scientific and technical sphere is due to specialisation and cooperation, which involve about 3,000 research institutions in the CMEA countries, coordination of scientific and technical research plans, joint training of research personnel, an integrated system of scientific and technical information, and joint science-production associations. At the same time, it is ever more evident that the historically arisen organisational and economic barriers between scientific and technical cooperation and production have to be removed. Conditions should be created for integrating scientific and technical cooperation with production cooperation and for developing science-production cooperation.

Foreign Trade

The CMEA countries' foreign trade is a major line in the development of socialist economic integration. It is meant to meet each country's requirements with goods produced in other countries on the basis of the international division of labour. That helps to boost the economy and improve the people's well-being.

The mutual commodity turnover among the CMEA countries increased from 4.6 billion roubles in 1950 to 33.5 billion in 1970 and to 197 billion roubles in 1985. It now accounts for about two-thirds of their total foreign-trade turnover, and for Bulgaria, Cuba and Mongolia the figure is as high as 74-79 per cent.

There have been considerable changes in the *commodity structure of exports and imports.* These reflect the structural changes in the CMEA countries' economy and their growing involvement in the international division of labour. The share of finished products is being increased at the expense of unprocessed products. Equipment exports from those European CMEA countries where engineering used to be poorly developed have been growing at a particularly rapid pace. That shows an evening-out of the CMEA countries' development levels.

In 1950, for instance, Bulgaria did not export any engineering products at all, and in 1983 it supplied the CMEA countries with 3.8 billion roubles worth of such products, which amounted to 56.3 per cent of its total exports to these countries.

In 1983, specialised products made up 41 per cent of the total volume of mutually exported engineering products among the CMEA members.

Monetary-financial and credit cooperation among the CMEA countries plays an important role. The International Bank for Economic Cooperation (IBEC) and the International Investment Bank (IIB) have been operating with success. From 1965 to 1983, the IBEC's volume of operations exceeded 1,400 billion transfer roubles. From 1971 to 1982, the IIB undertook to grant over 3.6 billion transfer roubles worth of credits for 83 projects, and 60 earlier-credited projects have already been put in operation.

Joint Planning Activity

Joint planning activity is an important instrument in regulating all forms of cooperation among the CMEA countries. It includes coordination of national economic plans; mutual consultations on basic matters of economic, scientific and technical

policy; development of long-term target-oriented cooperation programmes in the key industries and bilateral long-term programmes for production specialisation and cooperation; cooperation in forecasting, and exchange of experience in improving planning and in running the national economy.

Coordination of national economic plans is particularly important. In the 1980s, it has been raised to a new level. Whereas in the 1950s and 1960s it was largely confined to mutual dovetailing of commodity-supply lists, that is, to the sphere of circulation, today it has been extended to every stage of social reproduction, from scientific research and production to commodity supplies, credit and monetary settlements.

Long-term target-oriented cooperation programmes are a new form of the CMEA countries' joint planning activity. These embrace diverse lines of production and help to concentrate resources on the priority lines of economic development. In the mid-1980s, the CMEA countries had five long-term target-oriented cooperation programmes: in the field of energy, fuel and raw materials; in agriculture and the food industry; in engineering; in the production of consumer goods; and in transport.

3. THE NEW HORIZONS OF COOPERATION

In the 1980s, the internal and external conditions for the development of the socialist countries have changed dramatically. The world has entered a new phase of the scientific and technological revolution, and imperialism has increased its technological and military pressure. Hence the imperative need to switch the economies of the socialist countries to the road of intensive development. And that made it necessary to restructure the lines, forms and methods of economic cooperation among the CMEA countries.

The CMEA countries' Economic Summit held in Moscow in June 1984 was an important stage in working out new guidelines for such cooperation. Later on, these matters were elaborated at the 27th Congress of the CPSU and the congresses of the fraternal communist and workers' parties. The decisions of the Economic Summit contain five main points: 1) transition from coordination of the CMEA countries' national economic plans to coordination of economic policies; 2) development and implementation of a Comprehensive Programme of Scientific and Technical Progress until 2000; 3) extension of

direct ties between enterprises, associations and integrated works; 4) formation of joint ventures; and 5) improvement of the economic mechanism of cooperation. All these lines are closely interconnected.

Coordination of economic policies primarily envisages multilateral coordination of the CMEA countries' economic development conceptions, joint elaboration of a long-term conception of the international socialist division of labour, a concerted structural policy, and a concerted scientific and technical policy. It is meant to gear economic cooperation to raising economic efficiency in each country and in the socialist community as a whole, making the socialist countries more invulnerable in technical and economic terms, and strengthening the positions of socialism in world economic, scientific and technical development.

The *Comprehensive Programme of Scientific and Technical Progress in the CMEA Countries until 2000*, adopted at the CMEA's extraordinary 41st session in December 1985, is aimed at attaining these goals. The present stage of the scientific and technological revolution calls for an all-out restructuring of production rather than a selective renewal of production facilities, for a choice of the most promising lines of scientific and technical progress, and makes it necessary for the socialist community countries to pool their efforts and resources in tackling these tasks. Suffice it to say that the use of flexible processes makes it possible to halve production areas and reduce the number of personnel to one-eighteenth, and the production cycle to one-twentieth.

The Comprehensive Programme maps out joint ways of concentrating their efforts and resources along the main lines of scientific and technical progress. It includes five priority lines of development: computerisation, all-out automation, the faster development of nuclear power-engineering, the introduction of new materials and the corresponding processing methods and the development of biotechnology.

The main goal of cooperation among the fraternal countries in computerising the national economy is to fit out all branches of production and public life with the most advanced computers. This will help to accelerate scientific and technical progress, raise labour productivity, save labour resources, materials and energy, speed up research, and restructure the non-production sphere.

One of the targets, for instance, is to develop a super-computer of the new generation with a speed of over 10 billion

operations per second. The principles of artificial intelligence and ever more sophisticated means of man—machine interactions are being used to solve complicated economic and scientific problems. As they implement their Programme, the CMEA countries aim at revolutionising their science, technology and production.

The second priority line of the Comprehensive Programme is all-out automation of production. Wide use of industrial robots, microprocessors and flexible computer-aided processes will help to boost labour productivity, improve product quality, and reduce production costs.

The third priority line of the Comprehensive Programme is faster development of nuclear power-engineering.

The fourth line is aimed at developing new materials and progressive methods of their treatment. That is highly important, for present-day scientific and technical progress is inconceivable without superpure, extra-strong, heat-resisting and anti-corrosive materials.

Finally, an ever greater role in many fields of the economy belongs to biotechnology. That is why its joint development by the socialist countries will help to resolve economic, production, food and ecological problems.

Implementation of the Comprehensive Programme marks a new stage in the scientific, technical and economic cooperation of the socialist community countries. Its economic and organisational mechanism is being radically improved. The role of work collectives tends to increase with the expansion of direct ties between the enterprises and associations of different socialist countries and with the launching of joint ventures.

Take, for instance, the Soviet-Czechoslovak association *Robot*, two Soviet-Bulgarian science-production associations in the machine-tool industry (*Ivanovo—Sofia* and that between the Moscow machine-tool production association *Krasny Proletari* and the science-production robot-making plant *Beroe*), and the international science-production association *Interrobot*.

One of the main programmatic tasks of the communist and workers' parties of the socialist countries is to strengthen and deepen their scientific, technological and economic cooperation. The CPSU Programme says: "In economic relations, the CPSU stands for a further deepening of socialist economic integration as the material foundation for drawing the socialist countries closer together. It attaches special importance to a consistent uniting of efforts by the fraternal countries in key areas of intensification of production and acceleration of scientific and technological progress in order to accomplish

jointly a task of historical significance, namely, that of advancing to the forefront of science and technology with the aim of further improving the well-being of their peoples and strengthening their security...

"*The CPSU regards it as its internationalist duty, together with the other fraternal parties, to consolidate the unity and increase the strength and influence of the socialist community.* The outcome of the competition between socialism and capitalism and the future of world civilisation depend largely on the strength of the community, on the success of each country in its constructive endeavours, and on the purposefulness and coordination of their actions."[1]

QUESTIONS FOR DISCUSSION

1. What is the world socialist economic system?
2. What economic laws operate in the relations between the socialist countries?
3. What is the effect of the international division of labour?
4. What are the main lines of deepening the international socialist division of labour?
5. What is socialist economic integration?
6. What are the main goals and lines of the CMEA countries' Comprehensive Programme of Scientific and Technical Progress until 2000?

[1] *The Programme of the Communist Party of the Soviet Union*, p. 67-69.

Chapter Twenty

LAWS GOVERNING THE PERFECTION OF THE SOCIALIST ECONOMY

Gaining time means gaining everything...
Lenin

The transition from capitalism to socialism is the main content of the present epoch. Alongside the world capitalist system there is now a world socialist system, which keeps strengthening and developing. The contradiction between them is the main contradiction of the epoch. It has an immense influence on the development of each system and determines mankind's whole future. That is why it is so important to study the uniformities of the relations between the two systems, their contest and cooperation, their influence on the course of world events, on social progress and the solution of mankind's most burning problem, the problem of preventing a world war.

In this chapter, we shall examine the economic competition between the two world systems as a uniformity of the epoch, socialism's historical advantages in its contest with capitalism, and the laws governing the perfection of socialism.

1. THE ECONOMIC COMPETITION BETWEEN THE TWO WORLD SYSTEMS AS A UNIFORMITY OF THE EPOCH

Peaceful Coexistence as an Imperative of the Times

The present-day complicated, diverse and dynamic world abounds in contradictions and contrasting tendencies. It is a world of alternatives, hopes and fears. Never in the past was it subjected to such political and physical pressures. Never

before did mankind exact such tribute from nature and never before was it so vulnerable to the power it had itself created.

In view of its social nature, imperialism seeks to resolve contradictions by military force. Arms production has reached an unprecedented scale. The amount of explosives for every inhabitant in the world already exceeds 15 tons, and the arms race is still on. Today, imperialism has been trying to extend it to outer space, pushing mankind closer to the brink of an abyss.

What has the future in store for humanity? Can the threat of war be eliminated once and for all? What are the forces that should tackle this task?

The 27th Congress of the CPSU gave answers to these questions. Imperialist ideologists seek to persuade their audience that the threat of war comes from socialism. They do not want to understand that the class struggle and a world war are different things, that revolutions can occur without armed struggle, and that the most important task facing the revolutionary forces today is to avert a world war.

The Communists do not deny the existence of deep-rooted contradictions between capitalism and socialism. It was they who established that the contradiction between capitalism and socialism is the main contradiction of our epoch. Lenin wrote back in 1920: "In the present world situation following the imperialist war, reciprocal relations between peoples and the world political system as a whole are determined by the struggle waged by a small group of imperialist nations against the Soviet movement and the Soviet states headed by Soviet Russia."[1] That was reaffirmed by the 27th Congress of the CPSU: "The first and most important group of contradictions in terms of humanity's future is connected with the *relations between countries of the two systems, the two formations.* These contradictions have a long history. Since the Great October Revolution in Russia and the split of the world on the social-class principle, fundamental differences have emerged both in the assessment of current affairs and in the views concerning the world's social perspective."[2]

But does the main contradiction make the arms race and the threat of world war inevitable? The 27th Congress showed very well that the causes of the arms race and the military threat do not lie in the existence of socialism.

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[1] V.I. Lenin, "The Second Congress of the Communist International, *July 19-August 7, 1920*," *Collected Works*, Vol. 31, 1977, p. 241.

[2] Mikhail Gorbachev, *Political Report of the CPSU Central Committee to the 27th Party Congress*, p. 14.

Socialism first emerged with a banner of peace in its hands (the Decree on Peace was the first decree of the Soviet power) and it remains true to that banner until this very day, rallying together ever new contingents of fighters for peace. The threat to peace comes from imperialism, from the policy of the most reactionary, militarist and aggressive forces of today.

In contrast to the world bourgeoisie, the socialist states have always opposed a military solution of the problems arising in the historical contest between the two systems. It was Lenin who substantiated, with brilliant foresight, the *necessity and possibility of peaceful coexistence between socialist and capitalist states.*

The conception of peaceful coexistence was further developed at the 27th Congress of the CPSU. The CPSU Programme says: "In the present-day world, which is riddled with acute contradictions, and in the face of impending catastrophe, the only sensible and acceptable way out is *the peaceful coexistence of states with different social systems.* This does not merely mean the absence of wars. It is an international order under which goodneighbourliness and cooperation rather than armed force would prevail, and a broad exchange of the achievements of science and technology and cultural values would be carried out for the good of all nations... Peaceful coexistence meets the interests of all countries and peoples."[1]

Having analysed the present balance of forces between capitalism and socialism, and the level of modern weaponry, the 27th Congress of the CPSU came to the conclusion that the character of this weaponry leaves no country any hope of "safeguarding itself solely with military and technical means... In the context of the relations between the USSR and the USA, security can only be mutual, and if we take international relations as a whole it can only be universal... Confrontation between capitalism and socialism can proceed *only and exclusively in forms of peaceful competition and peaceful contest.*"[2]

The Economy, the Main Sphere of the Contest Between Capitalism and Socialism

The struggle between the two world systems unfolds in every sphere of social life, but primarily in the economy. Lenin said: "We are now exercising our main influence on the international

[1] *The Programme of the Communist Party of the Soviet Union*, pp. 22-23.
[2] Mikhail Gorbachev, *Political Report of the CPSU Central Committee to the 27th Party Congress*, pp. 82, 83, 84.

revolution through our economic policy... The struggle in this field has now become global. Once we solve this problem, we shall have certainly and finally won on an international scale. That is why for us questions of economic development become of absolutely exceptional importance."[1]

The communist and workers' parties of the socialist countries are guided by Lenin's ideas on that issue. After all, economic successes determine the people's living standards, the power of the example set by the new social system for the working people of the capitalist countries, the possibility of supporting the revolutionary and liberation movement, the socialist community's defence capabilities and, consequently, the possibility of averting a world war.

2. THE HISTORIC ACHIEVEMENTS OF SOCIALISM IN THE COMPETITION WITH CAPITALISM

Unequal Conditions

The economic competition between the two systems started at a time when the conditions were highly unfavourable for socialism. First, the socialist revolution initially won out in a country which in economic terms lagged far behind the most developed capitalist countries.

In 1913, for example, per capita national income in Germany was 3.6 times, in France 4.3 times, in Britain 5.5 times, and in the USA 8.2 times as high as in Russia. The economy of most countries which eventually took the road of socialist construction also fell far short of the levels of the developed capitalist countries.

Second, Russia's economy was destroyed by the First World War and then by the civil war and the foreign imperialist intervention.

In 1929-1921, industrial production fell to one-seventh of the 1913 figure, and steel production, to one-twenty second. In the early 1920s, the USA was producing 250 times as much steel as the Soviet Republic, nearly 80 times as much coal, nearly 20 times as much oil, 100 times as much electric power, 130 times as much engineering output, 320 times as much chemical output, and almost 35 times as much industrial output as a whole.

Third, Russia's economic backwardness was exacerbated by its cultural backwardness. In 1910, roughly 80 per cent of

[1] V.I. Lenin, "Tenth All-Russia Conference of the R.C.P.(B.), *May 26-28, 1921*", *Collected Works*, Vol. 32, p. 437.

Russia's children and teenagers had no chance to go to school.

What made the situation worse was that the economic blockade staged by imperialism made it impossible for the Soviet Union not only to rely on some other country's assistance, but even to enjoy the advantages of the international division of labour. In its drive against economic and technical backwardness, it had to rely almost exclusively on its own strength. Apart from that, the constant military threat from the imperialist powers made it necessary for the Soviet Union to divert significant economic resources from peaceful construction for defence purposes.

In these extreme conditions, it took the Soviet Union less than two decades to rehabilitate the war-ravaged economy, to resolve such major tasks as industrialisation of the economy, cooperation of peasant farms, and the cultural revolution, and to settle the nationalities question.

In 1940, the USSR's national income was five times as high as in 1913, and its industrial production was 7.7 times as high, reaching 30 per cent of the US volume. In terms of industrial production, the USSR was now second in the world, having surpassed Germany, Britain and France.

Wartime Losses

Peaceful socialist construction in the USSR was interrupted by Nazi Germany's treacherous attack. The enemy was defeated, but at the cost of untold economic and human losses. The total value of destroyed or plundered assets came to 679 billion roubles. Moreover, losses from warfare and from cessation of production on the occupied territory came to 1,900 billion roubles. The country's most grim loss, however, was the loss of over 20 million human lives.

During the war, the USSR's industrial production dropped by 8 per cent, its agricultural production by 40 per cent, and its retail trade by over 50 per cent, while industrial production in the USA increased by more than 60 per cent. In 1945, the USSR produced only 17 per cent of the volume of industrial output in the USA, that is, the ratio was nearly 1 to 6.

Historic Achievements

Leaving the Soviet economy no time to recover from the war against fascism, the USA drew the Soviet Union into a cold war and into an exhausting arms race. Having made

fabulous profits from World War II, US imperialism laid claim to world domination immediately after the war was over.

In the late 1940s, the USA accounted for over one-half of the capitalist world's industrial production, 33 per cent of its commodity exports, over one-third of its capital exports, and nearly three-quarters of its gold and currency reserves. It had a monopoly in the production of atomic weapons. In the autumn of 1945, the USA first took the line of preparation for an atomic war against the Soviet Union; at the end of 1948 it had 150 A-bombs, and at the end of 1951, roughly 1,000.

In 1948, the prewar level of industrial production in the USSR was in the main attained, and in 1949 it put an end to the US monopoly in the production of atomic and eventually thermonuclear weapons. Having created a powerful nuclear-missile capability, the Soviet Union raised the main barrier in the way of imperialist-initiated nuclear-missile war.

In these conditions, the ruling circles of the USA and other capitalist countries began to make wider use (alongside the arms race) of other forms of struggle against socialism: ideological and economic. In the late 1950s and early 1960s, the capitalist countries pursued a strategy of economic growth, aimed at mustering all the forces of the monopolies and the state to increase productive capacity of the economy. Among the major instruments here were faster accumulation of capital, intensive research and development, and wider and better training of personnel. In the 1950s, the average annual growth of industrial production in the capitalist countries was 4.9 per cent, in the 1960s it was 5.7 per cent, and in the 1970s it was down to 3.2 per cent.

The economy of the USSR and other socialist countries developed much faster. From 1961 to 1985, average annual growth of industrial production in the developed capitalist countries was 3.9 per cent, and in the socialist countries it was 6.9 per cent. As a result, the latter's share in world industrial production increased from about 20 per cent in the 1950s to over 40 per cent in the mid-1980s, while the share of the developed capitalist countries shrank from 73 per cent to 50 per cent.

So, in spite of unfavourable conditions connected with inherited backwardness, the grave consequences of imperialist-initiated wars, constant military, economic, political and ideological pressure from imperialism, and the need to make expenditures on defence even in peacetime, socialism has proved its historic advantages over capitalism in the development of the productive forces. It is only owing to the replacement of private

property with social property in the means of production, economic planning and a fundamental change in the goal of social production that the socialist countries have been able to rise from backwardness to the heights of progress. Socialism has ensured more dynamic development of the productive forces owing to the new relations of production, the most progressive in the history of humanity.

Two Systems and Two Ways of Life

To compare the progressiveness of the two systems, one should not only take into account the level of the productive forces and their rate of development, but bear in mind whom that development serves and how it benefits the working people. The socio-economic advantages of socialism over capitalism are most evident in the socialist way of life.

The *capitalist way of life* is based on private property in the means of production and implies exploitation of the working people by the bourgeoisie, social uncertainty, unemployment (or threat of unemployment), political and national oppression and, for a part of the population, poverty as well.

The *socialist way of life* is based on social property in the means of production and implies equality of all members of the society, an end to all forms of oppression (economic, political, social and national), and approximation of the economic and social position of the working class, the collective farmers and the intelligentsia. The socialist way of life means free and creative labour for oneself and the society, a guaranteed job, the working people's active involvement in running production and the state, ever fuller satisfaction of material and spiritual needs, a rising cultural level, confidence in the future, relations of collectivism, comradeship and mutual assistance, and all-round development of the individual.

The advantages of the socialist way of life are clearly evident in *labour*, the main sphere of human activity.

Under capitalism, the individual's status in the society is determined by property rather than labour, by what he takes from other people rather than what he gives to them. Under socialism, labour determines not only the individual's earnings, but also his status in the society, his prestige. That is why every individual comes to regard labour not only as a source of income, but also as an activity which determines his status in the society, in the work collective and in the family.

The concept of living standards[1] is closely connected with the concept of way of life. But there are significant distinctions between these two concepts. Living standards characterise people's living conditions from the standpoint of the development and satisfaction of their material and spiritual needs, whereas the way of life does that from the standpoint of social relations as well. By changing the relations of production, socialism immediately ensures a qualitatively new and much more humane way of life. As for living standards, these depend on the development of the productive forces. Since socialism has so far won out in the countries not highly developed in economic terms, the yawning gap in living standards that existed before the revolution cannot be closed right away, but calls for a gigantic stride forward in the development of the productive forces.

The rise in living standards is a key criterion in the competition between socialism and capitalism. Let us see how the most important human needs are met under the two systems. First of all, *food.*

In the consumption of staple foods—milk, butter, eggs, sugar—most European socialist countries are well up to the standards of the developed capitalist countries. In meat consumption, Czechoslovakia and Hungary are close to the latter as well. At the same time, some socialist countries, including the Soviet Union, still lag behind the most developed capitalist countries in the production and consumption of meat.

Housing is a major indicator of living standards. The Soviet Union inherited from capitalism most inadequate housing facilities. As a result of World War II, over 25 million Soviet citizens were left shelterless. After the war and especially since the late 1950s, housing construction in the USSR has reached a gigantic scale, unparallelled in the world. Thus, the dwelling space built between 1971 and 1984 exceeded the country's entire urban housing facilities at the beginning of the 1970s.

Under the decisions of the 27th Congress of the CPSU, every family is to have a separate flat or house of its own by the year 2000. In the 12th five-year period, the country is to build 595 million square metres of dwelling space, with better

[1] Living standards imply satisfaction of people's physical and spiritual wants. In analysing living standards ("traditional level of life"), Marx wrote that this level implies "not mere physical life, but... the satisfaction of certain wants springing from the social conditions in which people are placed and reared up" (Karl Marx, "Value, Price and Profit", in: Karl Marx, Frederick Engels, *Collected Works*, Vol. 20, 1984, p. 145.).

quality of housing construction and improvements in the people's living conditions.

The Soviet Union and other socialist community countries have developed large-scale *systems of public education, social ensurance and public health*, and a broad *network of cultural institutions*, which are open to all.

In the Soviet Union, education at every level is free of charge, whereas 6 million children in the USA go to private schools, and one-half of all US colleges are private as well. In 1981, education at a private college cost around $6,700, and at the most prestigious ones, $11,000. At the same time, federal government expenditures on education and social security have been markedly reduced, and the funds so released go to finance military programmes.

The socialist countries are carrying out vast health programmes, and medical aid is free of charge here in contrast with capitalist countries.

Although the socialist countries have yet to catch up in economic development levels, many of them are now close to the most developed capitalist countries in the main indicators of living standards, and in some have even surpassed them. That is due to the fundamental socio-economic advantages of socialism.

One should bear in mind that average indicators are a somewhat inaccurate reflection of the working people's living standards in the capitalist and the socialist countries, for the gap between the incomes of various classes and social groups in the capitalist countries is very much wider than in the socialist countries, where the working class, the collective farmers and the intelligentsia have been drawing closer together in income levels and living standards, whereas the gulf between the rich and the poor in the capitalist countries is ever deeper.

The Prospects of the Competition Between the Two World Systems

The question about the prospects of the economic competition between socialism and capitalism is of exceptional importance for each socialist country, for the socialist community and the whole of humanity, for a victory of the forces of peace and progress over those of reaction and war.

The socialist countries are still considerably behind the developed capitalist countries in labour productivity. What makes the problem worse is that between 1975 and 1985, there was a considerable slowdown in the economic development of most socialist countries. That is why the strategy for accele-

rating socio-economic development and the CMEA countries' Comprehensive Programme for Scientific and Technical Progress Until 2000 are of historic importance. They are crucial to the future of the USSR and to the positions of socialism in the modern world.

An analysis of the past and present stages in the historical contest between the two world systems invites certain conclusions.

First, socialism is increasingly using scientific and technical progress as a key factor of economic growth, thus exerting an ever stronger influence on world development.

Second, the advantages of socialism should be consistently revealed in its economic competition with capitalism. The development of socialism should change the balance of forces in the competition between the two world systems in its favour.

Third, socialism's victory in its competition with capitalism is an objective, but far from self-inducing process. The main thing here is to improve the economic mechanism, invigorate the working masses, and combine scientific and technological achievements with the advantages of socialism. What socialism needs is a new leap forward. And the greater that leap, the faster will socialism make up for its initial disadvantages in the development level of the productive forces and the greater will be its influence on the world revolutionary process. That is why the acceleration strategy is so important.

Fourth, cohesion of the world socialist system, with deeper socialist economic integration among the CMEA countries, is a major factor in strengthening the position of socialism in the economic competition with capitalism.

Fifth, imperialism still has considerable potentialities, which it will use in its economic competition with socialism. The imperialist countries seek to accelerate scientific and technical progress, to slow down the development of socialism with the help of an arms race, economic "sanctions", and so on. That is why the most urgent task facing the socialist countries is to accelerate their socio-economic development to the utmost by speeding up scientific and technical progress and mustering all the reserves and advantages of the socialist system in order to set an example of highest economic organisation and efficiency.

3. LAWS GOVERNING THE PERFECTION OF SOCIALISM

Two Phases of the Communist Society

The CPSU Programme says: "The ultimate goal of the CPSU is to build communism in our country."[1] The 27th Congress showed very well that the solution of present-day tasks is closely tied in with the attainment of that final goal. Socialism and communism are the two consecutive phases of one communist formation. And if we are to draw closer to the final goal, we should make a correct assessment of present-day tasks and be aware of the differences between the two phases of the communist formation, their common features and the ways along which the one develops into the other.

The *common features* of socialism and communism include predominance of social property in the means of production and absence of exploitation, production serving to satisfy the growing material and spiritual requirements of all members of the society, involvement in labour of all able-bodied members of the society, planned and balanced development of the economy, relations of collectivism, comradely cooperation and mutual assistance among free and equal members of the society.

In view of these common features, certain economic laws apply to both phases of the communist mode of production: the basic economic law of socialism (communism), the law of balanced and proportionate economic development, the law of steady labour productivity growth, etc.

At the same time, there are *essential distinctions* between socialism and communism.

The productive forces of socialism have not as yet reached a point in their development that would make it possible to ensure an abundance of material and spiritual goods and turn labour into the individual's prime necessity. Social property exists in two forms: state and cooperative (including collective-farm). There are still socio-economic distinctions between town and country, and between the working class and the peasantry, essential distinctions between mental and manual work, and survivals of the past in human consciousness. For most members of the society, labour has yet to become a prime vital need.

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[1] *The Programme of the Communist Party of the Soviet Union*, p. 25.

Communism implies a high development level of the forces of production which ensures an abundance of material and spiritual goods, assertion of the whole people's integral communist property in the means of production, and an absence of essential distinctions between town and country, between the working class and the peasantry, and between mental and manual work.

The CPSU Programme says: "*Communism is a classless social system with one form of public owneship of the means of production and with full social equality of all members of society. Under communism, the all-round development of people will be accompanied by the growth of the productive forces on the basis of continuous progress in science and technology, all the springs of social wealth will flow abundantly, and the great principle 'From each according to his ability, to each according to his needs' will be implemented. Communism is a highly organised society of free, socially conscious working people, a society in which public self-government will be established, a society in which labour for the good of society will become the prime vital requirement of everyone, a clearly recognised necessity, and the ability of each person will be employed to the greatest benefit of the people.*"[1]

So where does socialism "end" and communism "begin"? There is no sharp distinction between them; the development of socialism, the ever fuller use of its potentialities and advantages, and the strengthening of communist elements intrinsic to it means the society's actual advance to communism.

As the Party Programme notes, "The CPSU does not attempt to foresee in detail the features of complete communism. As society advances towards communism and more experience is accumulated in building it, scientific notions of the highest phase of a new society will become enriched and more concrete."[2]

The development of socialism into communism is determined by objective laws of social development, and these should always be reckoned with. As experience shows, any attempts to forestall events, to introduce communist principles without regard for the society's material and spiritual maturity are doomed to failure and can result in adverse economic and political consequences.

At the same time, one should not be too slow in carrying out

[1] *The Programme of the Communist Party of the Soviet Union*, pp. 25, 26.
[2] *Ibid.*, p. 26.

the necessary transformations and tackling new tasks. The slowdown in the USSR's economic development in the 1970s and early 1980s had an adverse effect on the solution of current socio-economic problems and the society's advance to the final goal. That is why the CPSU believes that under the present domestic and international conditions the Soviet society's all-round progress, its onward movement towards communism can and must be ensured by *accelerating the country's socio-economic development*. The Party's strategic line is aimed at a qualitative transformation of all aspects of life in the Soviet society. It is meant to renew the society's material and technical basis on the strength of STR achievements; to improve social relations, economic relations above all; to bring about profound changes in the content and character of labour, in the material and spiritual conditions of human life; to invigorate the whole system of political, social and ideological institutions. All these tasks are closely interconnected.

The development of socialist relations of production into communist ones, an abundance of material values, and conversion of labour into the individual's prime vital necessity are impossible without a corresponding material and technical basis. Lenin wrote in the draft Programme of the RCP(B) in 1919: "One of the basic tasks is to raise the level of labour productivity, for without this the full transition to communism is impossible."[1] That is why the formation of the material and technical basis of communism is pivotal to the development of socialism into communism. This basis is now hard to imagine in detail, but its main outlines are quite distinct. First of all, it implies large-scale automation of production and management, radical changes not only in the instruments, but also in the objects of labour, development of materials with preset properties that would surpass natural materials, development of new techniques, an immense expansion in the output of electric power, and so on.

A technical reconstruction of the national economy is an important stage in building the material and technical basis of communism. First of all, there should be a *rapid renewal of production facilities through wide use of advanced technology*, of the most progressive technological processes and flexible production lines that make it possible quickly to switch to new products with maximum economic and social effect. It is neces-

[1] V.I. Lenin, "Draft Programme of the R.C.P.(B.)", *Collected Works*, Vol. 29, 1977, p. 113.

sary to complete comprehensive mechanisation in all sectors of the production and non-production spheres and to take a major step forward in the automation of production, with a transition to automated shops and enterprises and automatic control and design systems. Electrification, chemicalisation, robotisation and computerisation of production will be effected and biotechnology used on an ever larger scale.

The Perfection of Socialist Relations of Production

Formation of the material and technical basis of communism leads to significant changes in the content and organisation of labour. This will go hand in hand with changes in the relations of production, with a gradual development of socialist relations of production into communist ones.

The development and improvement of the two forms of socialist property—state and cooperative—is of decisive importance in improving the relations of production. The main role in this process belongs to a further improvement of state (the whole people's) property. With the development of the productive forces, there are qualitative changes in state property: ever greater concentration and centralisation of production, stronger economic ties between enterprises, industries and regions, improvements in economic management and distributive relations, ever fuller implementation of the principle of social justice, a growing role played by the work collectives, and greater involvement of the working masses in running production.

The cooperative form of property has been developing together with state property. As the material and technical basis of agriculture is strengthened, the level of its socialisation tends to rise. The progress in inter-farm cooperation and agro-industrial integration leads to their gradual approximation, mutual enrichment and eventual development into integral communist property.

One of the most complicated tasks in building communism is to *educate a new individual*. Communism is impossible without high standards of culture, education and social consciousness, without ideological maturity. This means that the formation of the new individual is not only a result, but a major condition in building the new society. The main thing in forming the new individual and in improving the relations of production is to foster a communist attitude to labour. "Communist

labour in the narrower and stricter sense of the term is labour performed gratis for the benefit of society, labour performed not as a definite duty, not for the purpose of obtaining a right to certain products, not according to previously established and legally fixed quotas, but voluntary labour, irrespective of quotas; it is labour performed without expectation of reward, without reward as a condition, labour performed because it has become a habit to work for the common good, and because of a conscious realisation (that has become a habit) of the necessity of working for the common good—labour as the requirement of a healthy organism."[1] But if all members of the socialist society are to learn to work gratis, they should first learn to work honestly for a definite reward. That is why an important thing here is *to improve the relations of distribution.*

The material foundation on which socialist labour will turn into communist labour is the formation of the material and technical basis of communism, when the essential distinctions between mental and manual work will be eliminated and conditions created for the all-round development of every individual. The economic strategy of the CPSU is geared towards these goals. The CPSU Central Committee's Report to the 27th Congress says: "We are now striving to change the thrust of the economic mechanism, to overcome its costliness and to orient it towards a higher level of quality and efficiency, acceleration of scientific and technological progress and enhancement of the human factor. This is the main thing that will, in practice, signify further improvement of the socialist production relations and will provide new scope for the growth of the productive forces."[2]

QUESTIONS FOR DISCUSSION

1. What is the essence of peaceful coexistence between socialist and capitalist states?
2. Why is the economy the main sphere of the contest between the two systems?
3. What are the advantages of the socialist way of life over the capitalist one?

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[1] V.I. Lenin, "From the Destruction of the Old Social System to the Creation of the New", *Collected Works*, Vol. 30, 1965, p. 517.

[2] Mikhail Gorbachev, *Political Report of the CPSU Central Committee to the 27th Party Congress*, p. 49.

4. What is the essential distinction between the policy of the socialist community countries and that of the capitalist countries in matters of war and peace?

5. What are the main ways for the perfection of socialist relations of production?

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